

Financial Management Final Internal Audit Report June 2023

Hywel Dda University Health Board

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Committee:	Audit & Risk Assurance Committee



Audit and Assurance Services conform with all Public Sector Internal Audit Standards as validated through the external quality assessment undertaken by the Chartered Institute of Public Finance & Accountancy in April 2023.

Acknowledgement:

NHS Wales Audit and Assurance Services would like to acknowledge the time and co-operation given by management and staff during the course of this review.

Disclaimer notice - please note:

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Executive Summary

Purpose

To assess the adequacy and operation of systems and process in place for aspects of Financial Management and the financial reporting mechanisms.

Overview

Whilst noting the challenges of the Health Board’s overall financial position, we have concluded Reasonable Assurance for the systems and processes currently operating, which are covered within the review.

The matters requiring management attention include:

- Level of narrative commentary on finance report covering brought forward position and risk to delivery of individual financial savings.
- Variation in approach to business partner meetings.

Further matters arising concerning the areas for refinement and further development have also been noted (see Appendix A).

Report Opinion

Reasonable



Some matters require management attention in control design or compliance.

Low to moderate impact on residual risk exposure until resolved.

Trend



Assurance summary¹

Objectives	Assurance
1 The Board and relevant sub-committees are provided with sufficient relevant and accurate information	Reasonable
2 Finance forecasting is based on realistic assumptions and agreed accounting policies.	Sustainable
3 Directorates work collaboratively with Finance to review performance, manage budget, and identify opportunities to reduce deficit.	Reasonable

¹The objectives and associated assurance ratings are not necessarily given equal weighting when formulating the overall audit opinion.

Key Matters Arising

	Objective	Control Design or Operation	Recommendation Priority
1	Reporting	Design	Medium
2	Finance Business Partners Approach	Operation	Medium

1. Introduction

- 1.1 Hywel Dda University Health Board (the HDUHB) has a statutory duty to break even against the resource limit set by Welsh Government (WG) over a period of 3 years as set out in section 175 and 176 of the NHS (Wales) Act 2006 as amended by section 2 of the NHS Finance (Wales) Act 2014.
- 1.2 In September 2022 the Health Board was escalated to Targeted Intervention status for planning and finance because of the growing financial deficit and inability to produce to an approvable Integrated Medium-Term Plan (IMTP).
- 1.3 Risks identified included continued deterioration of the underlying forecast deficit, insufficient resource to support service continuity, and breach of the revenue funding limit.
- 1.4 Whilst the audit considered process to identify opportunities to reduce the deficit, it did not review the detail or dynamics of individual Programmes of Change put in place as part of the Health Board's Targeted Intervention response, as this is covered by a separate review.

2. Detailed Audit Findings

Objective 1: The Board and relevant sub-committees are provided with sufficient relevant and accurate information to clearly understand the organisation's financial position, performance, and associated risks

- 2.1 A review was undertaken of the reporting of financial information to both the UHB Board and Sustainable Resource Committee (SRC) to ascertain that the information was relevant and conducive to supporting challenge and discussion relating to financial performance. The reports have highlighted the significant financial deficit faced by the Health Board as well as key drivers to the financial position. Papers to both the committee and the Board also provide commentary on the reasons and drivers behind the significant in year change in the project financial deficit
- 2.2 The figures in the Finance Board Paper and the SRC Pack were reviewed to ensure consistency and compared to the narrative provided in the Welsh Government returns to verify consistency.
- 2.3 The Finance Board reports were found to have consistent commentary which was explained in detail further into the report. The figures and narrative were consistent with that submitted on Welsh Government returns.
- 2.4 The SRC reports was similarly detailed and provided a good overview with a range of visual accompaniments including charts and graphs.
- 2.5 It was identified during the audit that whilst the overall financial position summary was described in a high level narrative form there was no tabulated version of figures to support the 'Background' and 'Assessment' sections to aid understanding. It was also noted that there was limited explanation relating to brought forward figure, and detail and risk of individual savings schemes. **[Matter Arising 1]**

Conclusion:

- 2.6 Whilst the overall financial reporting was identified as adequate, some enhancements could be made as noted in matters arising one. Accordingly, we have concluded reasonable assurance **Reasonable** assurance for this objective.

Objective 2: Finance forecasting is based on realistic assumptions and agreed accounting policies

- 2.7 Financial forecasting takes place on ongoing basis through the monthly financial cycle. Forecasts are created monthly by aggregating current actuals with future budget figures, identified opportunities, known service pressures, workforce requirements and changes in expenditure. Forecasts are created for future months, the predicted year end position and the future financial year. The forecast includes projected savings although as noted objective one reporting on savings could benefit from further details and risks to the delivery of individual savings. The full year end forecasts are reported within the monthly, power BI, reporting.

- 2.8 Financial forecasts also take into account key elements including service changes, strategic programmes of changes and required expenditure commitments form the annual planning cycle. The forecasted financial position also included estimated for accruals such annual leave not taken ion the accounting period.
- 2.9 Details of the forecasting process is documented within a suite of established financial principle documents.

Conclusion:

- 2.10 Based on the finings noted above, a **Substantial** level of assurance has been concluded.

Objective 3: Directorates work collaboratively with their Finance Business Partner

- 2.11 Finance information is shared with budget holders monthly on working day four through the Power BI reporting Process. Finance Business Partners (FPBs) meet with budget holders as part of the monthly process to discuss the current financial position. In addition, FPBs will meet with budget holders informally throughout the month and attend directorate meetings, where further information can be supplied in relation to the monthly position.
- 2.12 The discussions with budget holders will cover a combination of the following:
- Current & in-month financial position
 - Variances/overspends
 - Identification of cost drivers and risks
 - Saving schemes including cash & efficiency savings,
 - Identifying service changes and activity, and the impact financially on the cost centre
 - Forecasting (iterations will vary throughout the year depending on the above).
- 2.13 Further dialogue on the financial position take place where FBP's attend Directorate business meetings and also at the Directorate improving together sessions.
- 2.14 Discussions with FBP's identified inconsistencies in the approach taken across service areas in regard to the type and depth of discussions taking place ranging from ono-to-one meetings with budget holders to overarching service meetings with senior and general managers. It was also noted that as some of the discussions are informal there was no evidence of the key issues identified or actions agree. **[See Matters Arising 2]**
- 2.15 Directorates with higher operational variances are also required to meet and discuss the position with the Director of Finance and identify opportunities to close the savings gaps as part of the month end process and may be requested to formally document and agree to the planned initiatives.
- 2.16 PowerBI based reporting and allows for "drilling down" behind the numbers to further understand where variances to budget, and is used to support the meetings

between Directorates and FPBs. Further information can also be accessed for QlikView and Directorates requiring more granular information can obtain this via Oracle or direct from their Finance contact.

- 2.17 Accountability Acceptance Letters were sent to all budget holders at the start of the financial year, in line with the Budgetary Control procedure. The budget process is led by the Finance Team, however there is a process for the budget holders to identify risks and opportunities before they sign their letters. It was noted that in the year 2022/23 budget letters round, that varying levels of feedback had been provided from management to finance regarding the content of budgets, with one Directorate not agreeing to sign the accountability letter for two budgets. The Finance Department worked with the Primary Care Directorate to put in place mitigating actions and improved financial reporting to provide enhanced understanding of the position.
- 2.18 The audit noted that Programmes of Change have been put in place, which have identified potential savings targets, as part of the Health Board's Targeted Intervention response. These are subject to a separate Internal Audit Review.

Conclusion:

- 2.19 Based on the findings noted above, a **Reasonable** level of assurance has been concluded.

Appendix A: Management Action Plan

Matter Arising 1: Reporting (Design)		Impact	
It was identified during the audit that whilst the overall financial position summary was described in a high level narrative form there was no tabulated version of figures to support the 'Background' and 'Assessment' sections to aid understanding. It was also noted that there was limited explanation relating to brought forward figure, and detail and risk of individual savings schemes.		Continued deterioration of the underlying forecast deficit, insufficient resource to support service continuity, and breach of the revenue funding limit.	
Recommendations		Priority	
1.1	Management to review the reports and consider include a tabulated summary of the position and further narrative relating to brought forward figure, and detail and risk of individual savings schemes.	Medium	
Agreed Management Action		Target Date	Responsible Officer
1.1	<p>Implement revisions to the current financial report that is included within the Public Board and Sustainable Resources Committee to provide clarity surrounding the summary financial position, including operational cost drivers/decisions as explanations for all material movements from allocated budgets. Consideration is to be given to avoid using technical accounting and financial language.</p> <p>Savings reporting to incorporate scheme level of detail, summarised at Executive Director level and Savings Theme, categorised in the Welsh</p>	14 th July 2023	Rebecca Hayes, Senior Finance Business Partner.



	Government defined ratings, (Green, Amber and Red), inclusive of a forecasted risk adjusted value to highlight likely deliverability of schemes against the original planned financial benefit values.		
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Matter Arising 2: Finance Business Partners (Operation)		Impact	
Discussions with FBPs identified inconsistencies in the approach taken across service areas in regard to the type and depth of discussions taking place ranging from ono-to-one meetings with budget holders to overarching service meetings with senior and general managers. It was also noted that as some of the discussions are informal there was no evidence of the key issues identified or actions agree.		Continued deterioration of the underlying forecast deficit, insufficient resource to support service continuity, and breach of the revenue funding limit.	
Recommendations		Priority	
2.1	Management to review the current arrangement to ensure consistency in approach and level of documented actions.	Medium	
Agreed Management Action		Target Date	Responsible Officer
2.1	<p>Agree, document, and gain operational engagement and signoff for a framework that articulates a consistent agenda, frequency and action point outputs expected from all routine financial performance meetings.</p> <p>Ensure this approach is embedded within the Operational Delivery Framework - a Master Theme deliverable as part of Targeted Intervention led by the Executive Director of Operations.</p>	<p>18th August 2023</p> <p>In-line with Operational Delivery Framework Targeted Intervention Date</p>	Executive Director of Finance

Appendix B: Assurance opinion and action plan risk rating

Audit Assurance Ratings

We define the following levels of assurance that governance, risk management and internal control within the area under review are suitable designed and applied effectively:

	Substantial assurance	Few matters require attention and are compliance or advisory in nature. Low impact on residual risk exposure.
	Reasonable assurance	Some matters require management attention in control design or compliance. Low to moderate impact on residual risk exposure until resolved.
	Limited assurance	More significant matters require management attention. Moderate impact on residual risk exposure until resolved.
	Unsatisfactory assurance	Action is required to address the whole control framework in this area. High impact on residual risk exposure until resolved.
	Assurance not applicable	Given to reviews and support provided to management which form part of the internal audit plan, to which the assurance definitions are not appropriate. These reviews are still relevant to the evidence base upon which the overall opinion is formed.

Prioritisation of Recommendations

We categorise our recommendations according to their level of priority as follows:

Priority level	Explanation	Management action
High	Poor system design OR widespread non-compliance. Significant risk to achievement of a system objective OR evidence present of material loss, error or misstatement.	Immediate*
Medium	Minor weakness in system design OR limited non-compliance. Some risk to achievement of a system objective.	Within one month*
Low	Potential to enhance system design to improve efficiency or effectiveness of controls. Generally issues of good practice for management consideration.	Within three months*

* Unless a more appropriate timescale is identified/agreed at the assignment.



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