

Hywel Dda University Health Board

Contracting (Follow Up)

Final Internal Audit Report

February 2021

Private and Confidential

NHS Wales Shared Services Partnership

Audit and Assurance Services



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Appendix A Assurance Opinion and Action Plan Risk Rating

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| Auditor/s: | Jennifer Usher, Principal Auditor |
| Executive sign off: | Huw Thomas, Director of Finance |
| Distribution: | Shaun Ayres, Assistant Director Commissioning and Contracting |
| 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 Institute of Internal Auditors.

ACKNOWLEDGEMENT

NHS Wales Audit & 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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1. Introduction and Background

The follow-up review of Contracting was completed in line with the 2020/21 Internal Audit Plan. The relevant lead Executive Director for the assignment was the Director of Finance.

The original internal audit (HDUHB-1920-14) considered the adequacy of the systems and controls in place within the Health Board for the management of contract arrangements in order to provide assurance to the Board's Audit Committee that risks material to the achievement of system's objectives are managed appropriately.

A report rating of limited assurance was derived from this review. This audit has looked at the progress made by management to implement agreed actions to address the key findings identified in the previous report.

2. Scope and Objectives

The overall objective of this audit was to establish progress made by management to implement actions agreed to address key issues identified during the 2019/20 review of the adequacy of the systems and controls in place within the Health Board for the management of contract, in order to provide assurance to the Audit Committee that risks material to the achievement of system objectives are managed appropriately.

The scope of this audit was limited to the follow-up of action taken in response to issues raised in the last report.

3. Associated Risks

The following inherent risks were considered during this audit:

- Contracts are put in place that do not meet the needs of the Health Board or service users;
- Services are not delivered within budget, to the required level and/or quality; and
- Recommendations have not been addressed as agreed by management.


OPINION AND KEY FINDINGS

4. Overall Assurance Opinion

We are required to provide an opinion as to the adequacy and effectiveness of the system of internal control under review. The opinion is based on the work performed as set out in the scope and objectives within this report. An overall assurance rating is provided describing the effectiveness of the system of internal control in place to manage the identified risks associated with the objectives covered in this review.

The overall level of assurance that can be assigned to a review is dependent on the severity of the findings as applied against the specific review objectives and should therefore be considered in that context.

The level of assurance given as to the effectiveness of the system of internal control in place to manage the risks associated with the follow up review of Contracting is **Reasonable** assurance.

| RATING | INDICATOR | DEFINITION |
|-----------------------------|---|--|
| Reasonable Assurance |  | The Board can take reasonable assurance that arrangements to secure governance, risk management and internal control, within those areas under review, are suitably designed and applied effectively. Some matters require management attention in control design or compliance with low to moderate impact on residual risk exposure until resolved |

Follow up work was undertaken to confirm the progress that the Health Board has made against the agreed management responses from the original audit.





| In summary, progress against the seven agreed recommendations that required implementation is as follows: Priority rating | No of management responses to be implemented | Fully addressed | Partially addressed | Not addressed |
|--|---|------------------------|----------------------------|----------------------|
| High | 4 | 3 | 1 | 0 |
| Medium | 5 | 3 | 2 | 0 |
| Low | 0 | 0 | 0 | 0 |
| Total | 9 | 6 | 3 | 0 |

Since the audit in 2019/20, we note that good progress has been made with the implementation of the recommendations and that management actions have been completed for six recommendations to ensure a consistent approach is taken when establishing contracts and the efficient management control over contract performance.

We can also confirm that actions to address the remaining three recommendations, including one high priority in regard of authorised signatories and financial limits, have progressed with the actions due to be completed by April 2021.

5. Assurance Summary

The summary of assurance based of the follow-up of previous recommendations given against the individual objectives is described in the table below:

| Audit Objective | | Assurance Summary* | | | |
|-----------------|--|---|--|---|---|
| | |  |  |  |  |
| 1 | There is a consistent approach taken by the Health Board when establishing contracts. | | | | ✓ |
| 2 | Budgets and forecasts are prepared and based on contracts and expected income. | | | ✓ | |
| 3 | There is effective management control over contract performance. | | | | ✓ |
| 4 | There are appropriate reporting arrangements in place to ensure contract management issues and performance are reported through to the Health Board. | | | ✓ | |

* The above ratings are not necessarily given equal weighting when generating the audit opinion.

6. Summary of Audit Findings

The progress of management actions against key findings identified in the original report are noted in the main body below.

OBJECTIVE 1: There is a consistent approach taken by the Health Board when establishing contracts.

Standard Operating Procedures

In response to the lack of policies or standard operating procedures (SOPs) to support the process of contract formulation and acceptance identified in the previous audit report, the Finance Department have produced SOPs covering many aspects in regard of contracting and commissioning including Long Term Agreements (LTAs), Service Level Agreements (SLAs), Non-Contract Activity (NCA). To further enhance the SOPs, management should consider the inclusion of a version control system to ensure employees adhere to the latest versions.

Management action addressed.

OBJECTIVE 2: Budgets and forecasts are prepared and based on contracts and expected income.

Forecasting

The Healthcare Contracting Team have ownership of the forecasting element of both LTA and Continuing Health Care (CHC) activity. The responsibility for the forecasting of SLAs lies with the relevant Directorate and Finance Business Partners, with the Healthcare Contracting Team also providing a supportive role.

Contract forecasts and the financial positions are now regularly discussed with Finance Directors, Senior Finance Team members and representatives from the Healthcare Contracting Team on a monthly basis. Evidence was provided upon request to support the communication and engagement between Directorate and Finance staff in the scrutiny and adjustment of SLA contracts.

Management action addressed.

Monitoring and Budgeting

Since the previous audit report, the structure of the Healthcare Contracting Team has been amended to ensure individuals are responsible for the monitoring and budgeting of SLAs in addition to LTAs, CHC and NCA. Finance internal processes require all teams to complete a template that explains the 'point in time' forecast to budget and provide additional information such as recurrent or non-recurrent pressures. The template forms part of the wider overall budget setting process for the Health Board.

Management action addressed.

Authorised Signatories and Limits

The previous audit report highlighted LTA contracts for 2020/21 over a value of £10m not having been signed as authorised by the Chief Executive Officer following review and approval by the Health Board.

The Healthcare Contracting Team have committed to follow the Health Board Scheme of Delegation for 2021/22 by ensuring LTA contracts over the value of £10m being signed by the Chief Executive Officer and those below £10m being appropriately authorised and presented to the Health Board for information purposes. The new LTA contracts are due to be renegotiated and approved by the end of March 2021.

Management action partially addressed.

Contract Signings

The Healthcare Contracting Team have introduced an improved and comprehensive contracts register. Each individual contract has been assigned to appropriate contract owners from both Finance and the Directorate. The contract owners will have full responsibility for ensuring contracts are fully signed and dated by all relevant parties.

Furthermore, the Healthcare Contracting Team have committed to follow the Health Board Scheme of Delegation when renegotiating the LTA contracts at the end of March 2021.

Management action partially addressed.

OBJECTIVE 3: There is effective management control over contract performance.

Terms and Conditions

A review of three SLAs confirmed that the Healthcare Contracting Team had provided advice, guidance and support to both the Directorates and Finance Business Partners in relation to SLA contract management in regard of terms and conditions of the agreements. Further support was also provided through the reporting of the financial position and the forecasting elements of all SLA contracts.

Management action addressed.

Contracts Register

It was evident from the review of the Contract Register that significant improvements have been made. The information captured was accurately recorded, fully complete with comprehensive details noted in relation to individual contracts, with key representatives from Finance and the Directorate clearly identified. Additional fields have also been introduced to provide an increased level of control and assurance.

Management actions addressed.

Contract Extensions

The Healthcare Contracts team have developed a comprehensive Value for Money (VfM) Framework to aid the review of all SLA agreements.

A paper was presented to the Health Board on the 24th September 2020 outlining a SOP relating to Value for Money reviews of all SLAs. The Healthcare Contracting Team is working closely with the Assistant Director of Quality and the Health Board Value Team to ensure that quality considerations are embedded within Health Board contracting processes and that patient perspectives are included in future assessments of the Health Board's SLAs.

The framework will be used to improve analysis and support the contract renewal decision-making process. The Healthcare Contracting Team is intending to roll out the framework across the SLA contract portfolio. All contracts will be subject to this review prior to the authorisation of an extension.

Management actions addressed.

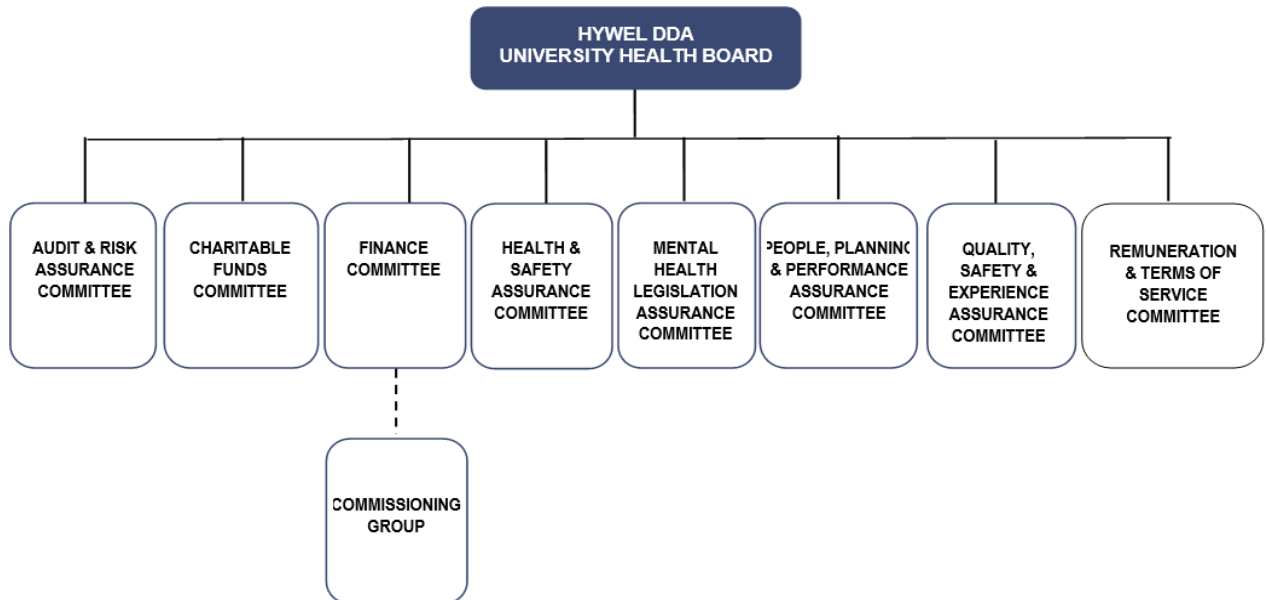
OBJECTIVE 4: There are appropriate reporting arrangements in place to ensure contract management issues and performance are reported through to the Health Board.

Reporting of Issues

The previous internal audit report identified a weakness in the lack of a robust process for the identification, escalation and addressing of arising issues of SLAs. A Commissioning Group has been established as a formal sub-group of the Finance Committee and constituted from November 2020.

The Commissioning Group will provide managerial and clinically-led direction on areas of commissioning for health care services, will assist in the development of commissioning intentions, planning and delivery of commissioned services and ensures appropriate escalation arrangements are in place to inform the

Health Board, Chief Executive or Chairs of other relevant Committees/ Sub-Committees of all arising issues in relation to contracts, including SLAs.





The first introduction meeting of the newly formed Commissioning Group was held in December 2020 and are due to meet on a monthly basis as per the agreed terms of reference. Therefore evidence of issues, meetings and escalations relating to established SLAs were limited during fieldwork with the expectation of SLA issues being fully scrutinised and addressed expected by April 2021.


Management action partially addressed.


Appendix A - Assurance Opinion and Action Plan Risk Rating

2020/21 Audit Assurance Ratings

 **Substantial Assurance** - The Board can take **substantial assurance** that arrangements to secure governance, risk management and internal control, within those areas under review, are suitably designed and applied effectively. Few matters require attention and are compliance or advisory in nature with **low impact on residual risk** exposure.

 **Reasonable Assurance** - The Board can take **reasonable assurance** that arrangements to secure governance, risk management and internal control, within those areas under review, are suitably designed and applied effectively. Some matters require management attention in control design or compliance with **low to moderate impact on residual risk** exposure until resolved.

 **Limited Assurance** - The Board can take **limited assurance** that arrangements to secure governance, risk management and internal control, within those areas under review, are suitably designed and applied effectively. More significant matters require management attention with **moderate impact on residual risk** exposure until resolved.

 **No Assurance** - The Board has **no assurance** arrangements in place to secure governance, risk management and internal control, within those areas under review, which are suitably designed and applied effectively. Action is required to address the whole control framework in this area with **high impact on residual risk** exposure until resolved.

Prioritisation of Recommendations

In order to assist management in using our reports, we categorise our recommendations according to their level of priority as follows.

| Priority Level | Explanation | Management action |
|----------------|---|----------------------|
| High | Poor key control design OR widespread non-compliance with key controls. PLUS Significant risk to achievement of a system objective OR evidence present of material loss, error or misstatement. | Immediate* |
| Medium | Minor weakness in control design OR limited non-compliance with established controls. PLUS Some risk to achievement of a system objective. | Within One Month* |
| Low | Potential to enhance system design to improve efficiency or effectiveness of controls. These are generally issues of good practice for management consideration. | Within Three Months* |

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



Office details: St Brides
St David's Park
Carmarthen
Carmarthenshire
SA31 3HB

Contact details: 01267 239780