

Budgetary Planning

FINAL INTERNAL AUDIT REPORT 2018/19

Hywel Dda University Health Board

Private and Confidential

NHS Wales Shared Services Partnership

Audit & Assurance Services

Assurance Rating



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Executive sign off	Huw Thomas – Director of Finance
Distribution	Rhian Davies – Assistant Director of Finance (Corporate Finance)
Committee	Audit & Risk Assurance Committee

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.

Please note:

This audit report has been prepared for internal use only. Audit & Assurance Services reports are prepared in accordance with the Service Strategy and Terms of Reference, approved by the Audit & Risk Assurance Committee.

Audit reports are prepared by the staff of the NHS Wales Shared Services Partnership – Audit & Assurance Services, and addressed to Independent Members or officers including those designated as Accountable Officer. They are prepared for the sole use of the Hywel Dda University Health Board and no responsibility is taken by the Audit & Assurance Services Internal Auditors to any director or officer in their individual capacity, or to any third party.

1. Introduction and Background

The assignment originates from the Internal Audit Operational Plan 2018/19 and the subsequent report will be submitted to the Executive Director and Audit & Risk Assurance Committee.

The relevant lead Executive Director for the assignment is the Director of Finance, whilst the Assistant Director of Finance (Corporate Finance) is the relevant operational lead.

2. Scope and Objectives

The overall objective of the review was to ensure that there were adequate systems in place to enable the Health Board to develop and agree a robust budget plan.

The review sought to ensure that:

- Policies and procedures are available to staff, are up-to-date and reflect current working practices;
- The Health Board has a Financial Strategy in place at the start of the financial year;
- A budget plan is subject to scrutiny and approval by senior management and the Health Board;
- Budget setting is linked to the operational planning process;
- An achievable budget plan is developed in consultation and agreement with service departments; and
- Budgetary responsibility is clearly identified and delegated to those with control for on-going budget management in line with the Scheme of Delegation.

The approach to audit assignments is risk-based, where the risks are identified with the lead manager. Subsequently, key staff were interviewed and documentary evidence was obtained and subjected to compliance and substantive testing.

We have allocated an assurance rating, dependant on the level of assurance Internal Audit are able to provide. There are four potential levels of assurance available, along with three recommendation priorities and these are described in Appendix B.

3. Associated Risks

The risks considered in the review were as follows:


- A robust and achievable budget plan is not agreed.

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.





RATING	INDICATOR	DEFINITION
<p>Reasonable Assurance</p>		<p>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.</p>

The level of assurance given to the effectiveness of the systems of internal control in place for the management of the Budgetary Planning process is **Reasonable Assurance**.

It has been identified that the UHB has put in place a detailed process to develop its financial plan for 2019/20. However, that needs to be considered in the context that this is based on a significant planned deficit, and that the UHB faces a significant challenge to deliver this position and the Welsh Government control total.

5. Assurance Summary

The summary of assurance given against the individual areas tested is outlined in the following table:

		ASSURANCE SUMMARY *			
Audit Scope					
1	Policies and Procedures			✓	
2	Financial Strategy			✓	
3	Approval of budget plan				✓
4	Budget setting linked to operational planning			✓	
5	Agreement with service departments			✓	
6	Scheme of Delegation				✓

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

Design of Systems/Controls (D)

The findings from the review have highlighted **1** issue that is classified as a weakness in the system control/design for the management of the Budgetary Planning process. This is identified in the Management Action Plan as (D).

Operation of System/Controls (O)

The findings from the review have highlighted **1** issue that is classified as a weakness in the operation of the designed system/control for the management of the Budgetary Planning process. This is identified in the Management Action Plan as (O).

6. Summary of Audit Findings

The key findings by the individual areas tested are reported in the section below with full details in Appendix A:

Audit Scope 1 – Policies and Procedures

There is a Financial Procedure in place, namely the "Budgetary and Allocation Control Policy", which was approved by the Audit & Risk Assurance Committee on 8 March 2016 and was due for review in March 2019. It was confirmed that having considered the current document, the Assistant Directors of Finance have taken the view that this would best be split in two. As such a budgetary control policy will be developed and separately a process document for completion of the Financial Plan. It was also confirmed that a timeframe had been set for updating the Policy – during summer 2019 in preparation for the next planning round.

In addition to the Financial Procedure the Health Board has adopted model Standing Orders (SO's) and Standing Financial Instructions (SFI's) issued by Welsh Government.

All staff are able to access the Financial Procedure, Standing Orders and Standing Financial Instructions via the Health Board intranet/internet.

A recommendation regarding the above is included in Appendix A.

Audit Scope 2 – Financial Plan

Health Boards are required to prepare an Integrated Medium Term Plan for submission to the Welsh Government, however, due to the Health Board's current intervention status, Welsh Government require the Health Board to develop and work to an annual plan. Therefore the financial plan prepared for 2019/20 is an Annual Financial Plan.

The Annual Financial Plan for Hywel Dda details the approach taken to prepare the budgets for 2019/20, and the cost pressures and growth pressures being faced by the organisation. It also details the development funding set aside to enable the shift from acute to community care as the Health Board takes the first steps towards

implementing its health and care strategy - "A Healthier Mid and West Wales".

The Annual Finance Plan and Turnaround Enabling and Action Plan was developed pending Welsh Government agreement.

The Annual Finance Plan has been prepared on the basis of a planned deficit position of circa £30m.

Audit notes that the UHB has a significant challenge to deliver this position and the Welsh Government control total.

Audit Scope 3 – Approval of budget plan

The HDUHB Annual Plan for 2019/20 was presented to the Health Board on 28 March 2019 for approval. Within the Annual Plan was a link to the Finance Enabling Plan which contains details of the budget plan for 2019/20.

Audit Scope 4 – Budget setting linked to operational planning

Hywel Dda University Health Board has in place an Annual Plan for the 2019/20 financial year. The Annual Plan was presented to the Board on 28 March 2019. An Annex to the Annual Plan is the "Interim Annual Finance and Turnaround Enabling and Action Plan".

Alongside the assumptions in the interim annual plan, a detailed approach was developed for the budget setting process for 2019/20, with a set of principles agreed by the Finance Committee and the Board.

The interim finance plan has been developed through close discussion and engagement with operational teams and budget managers to ensure that key issues are appropriately incorporated. The interim plan sets out that assumptions have been taken into account.

Assurance is provided in the budget plan that it was prepared in accordance with the aims and objectives set out in the UHB's Annual Plan ensuring a focus on the provision of safe quality patient-centred services.

The interim financial plan prepared recognises a planned deficit (circa £30m) in the 2019/20 financial year. As a result of this, the Health Board

will not be able to achieve its statutory financial duty. However, the Financial Plan sets out assurances for the Board over how it has been prepared and the risks identified, and provides assurance that the UHB continues to review all opportunities to deliver the planned position.

Audit Scope 5 – Agreement with service departments

As part of the planning cycle to produce a 3 year plan for 2019/22, Finance-Savings-Capital-Workforce Planning Templates were sent to all directorates for completion in September 2018. In addition, an IMTP 2019-22 Operations and Nursing IMTP Workshop Template was also circulated.

All Budget Managers within Hywel Dda UHB are requested to formally accept ownership of their budgets by signing an Accountability Agreement which is annexed to an "Accountable Officer Letter: Delegations and Financial Delivery for 2019/20". Details of their budgetary responsibilities are included within this letter which was sent by the Chief Executive to all Budget Managers on 10 April 2019, requesting that the Accountability Agreement was signed and returned to Finance by 23 April 2019.

As at 10 May 2019, only 24 out of 51 letters had been returned to Finance as requested. In addition, some of the return letters included "caveats" from the Budget Managers, attempting to justify why they might not succeed in operating within their allocated budget. Audit was informed that Finance are currently following up on all outstanding letters and the position had subsequently improved from when the initial audit field work was undertaken.

A recommendation regarding the above is included in Appendix A

Audit Scope 6 – Scheme of Delegation

Defined budgetary responsibilities are in line with the Health Board's Scheme of Delegation. The Qlikview analytics software used within Hywel Dda is set up with the access rights according to the appropriate level of budgetary responsibility.

The current Scheme of Delegation was approved at the Public Board meeting held on 29 November 2018. Internal Audit also reviewed the

SBAR Report on the Scheme of Financial Delegation provided to the Finance Committee on 28 September 2018.

The Assistant Director of Finance (Corporate Finance) and Assistant Director of Finance (Finance Systems and Statutory Reporting) confirmed that the intention is to take the Scheme of Delegation every six months to the Finance Committee.

7. Summary of Recommendations

The audit findings and recommendations are detailed in Appendix A together with the management action plan and implementation timetable.

A summary of these recommendations by priority is outlined below:

Priority	H	M	L	Total
Number of recommendations	1	1	0	2

Management Action Plan

Finding 1: Financial Procedure (D)	Risk
At the time of the audit, it was identified that the current financial control procedure (Budgetary and Allocation Control Policy) required updating, and with a budgetary control procedure to be developed and a separate process document for completion of the Financial Plan.	Outdated procedures may be followed.
Recommendation	Priority
Management to ensure that the new procedures are developed and approved in time to be utilised for the next financial planning round.	MEDIUM
Management Response 1	Responsible Officer/ Deadline
At the time of the audit it had been recognised by the Assistant Directors of Finance that the current policy would best be split in two. A small task and finish group has been established to develop a budgetary control policy and a separate process document for completion of the Financial Plan.	Assistant Director of Finance (Business Partnering)/Assistant Director of Finance (Corporate Finance) August 2019

Management Action Plan

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Finding 2: Budget Accountability Letters (O)	Risk
<p>At the time of the audit, not all the required Accountable Officer letters had been returned to Finance as requested. It was also noted that some of the returned letters from the managers highlighted risks to the delivery of the financial position. Audit was informed that Finance are currently following up on all outstanding letters.</p> <p>(It is noted that this position has improved in the period following the initial audit fieldwork).</p>	<p>Budget Managers may not be held accountable for their budgets.</p>
Recommendation	Priority

Management Action Plan

<p>The Health Board must ensure that all Budget Managers sign the appropriate Accountable Officer letters, as evidence of accepting ownership of their individual budgets, in order that they can be held to account for the financial performance.</p>	<p>HIGH</p>
<p>Management Response 2</p>	<p>Responsible Officer/ Deadline</p>
<p>Finance are working closely with directorates that have yet to submit their accountability letters to ensure they fully understand the makeup of their budget, the assurance they need to give and any pressures that need to be managed to enable overall budgetary control in their areas. As part of our financial governance and review, directorates are requested to attend holding to account (HTA) meetings on a monthly cycle.</p> <p>Some of the letters have highlighted risks to deliver, which are being managed through the Health Board's governance and accountability processes.</p> <p>As part of the May reporting HTA process (in June), it is expected that all of these discussions will have been finalised and accountabilities letters signed and returned.</p>	<p>Assistant Director of Finance (Business Partnering)</p> <p>June 2019</p>

2018/19 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** that arrangements to secure governance, risk management and internal control, within those areas under review, 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.

Budgetary Planning

Hywel Dda University Health Board



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