

# Financial Planning, Monitoring and Reporting

## Final Internal Audit Report

December 2021

Hywel Dda University Health Board

NWSSP Audit and Assurance



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Review reference:	HDUHB-2122-04
Report status:	Final
Fieldwork commencement:	5 <sup>th</sup> October 2021
Fieldwork completion:	12 <sup>th</sup> November 2021
Draft report issued:	1 <sup>st</sup> December 2021
Debrief meeting:	1 <sup>st</sup> December 2021
Management response received:	2 <sup>nd</sup> December 2021
Final report issued:	3 <sup>rd</sup> December 2021
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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.

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# Executive Summary

## Purpose

The purpose of this audit review is to provide assurance to the Health Board of the effective processes surrounding the management, co-ordination, monitoring and reporting of budgets.

## Overview

There are no high priority matters arising requiring immediate management attention. We identified three medium priority matters relating to:

- Budget holders not confirming acceptance of responsibility for the budgets delegated to them
- Limited use of the BI Dashboard and QlikView systems for budget monitoring
- Non-compliance with the Budgetary Control Policy and Scheme of Delegation for the completion and approval of Virement Forms.

The overall assurance rating of Reasonable is given on the basis of the systems and process in place, whilst acknowledging the ongoing financial challenges.

## Report Classification

		Trend
 <p><b>Reasonable</b></p>	Some matters require management attention in control design or compliance.	
<p><b>Low to moderate impact</b> on residual risk exposure until resolved.</p>		2018/19

## Assurance summary<sup>1</sup>

Assurance objectives	Assurance
1 The allocation of funds and resources through the budget framework align with the Health Boards Annual Plan objectives and priorities.	Reasonable
2 Budgetary responsibility is clearly delegated to budget holders and consistent with the scheme of delegation.	Reasonable
3 Sufficient, relevant and reliable information is available to budget holders to aid with budget management.	Reasonable
4 Appropriate monitoring and reporting arrangements are in place within the Health Board in relation to budgetary information.	Substantial

## Matters Arising

	Assurance Objective	Control Design or Operation	Recommendation Priority	
1	Accountability Agreement Letters	2	Operation	Medium
2	Qlikview and BI Dashboard Access Log	3	Operation	Medium
3	Authorisation and Completion of Virement Forms	3	Operation	Medium

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

## 1. Introduction

- 1.1 The review of Financial Planning, Monitoring and Reporting was completed in line with the 2021/22 Internal Audit Plan. The relevant lead Executive Director for the assignment was the Director of Finance.
- 1.2 NHS Wales organisations have a statutory duty to deliver a breakeven financial position over a rolling three-year basis and to operate within its budget within any given financial year. Maintaining a sound system of budgetary control is key to ensuring that the Health Board is able to provide its services within its allocated resources. The Health Boards Budgetary Control procedure sets out the budgetary control process and associated responsibilities of budget holders.
- 1.3 Given the issues relating to, and the consequence of the current Covid-19 pandemic, the Welsh Government took the decision to suspend the Integrated Medium Term Plan (IMTP) process with the requirement of the Health Board to produce and submit an Annual Plan for 2021/22 instead. The Annual Plan for 2021/22 was approved by the Health Board on the 25<sup>th</sup> of March 2021 and submitted to Welsh Government on the 31<sup>st</sup> March 2021.
- 1.4 The potential risks considered in the review were as follows:
  - resource allocations are not aligned to the Health Board’s priorities, resulting in failure to deliver the Annual Plan;
  - non-compliance with Health Board policies, procedures and scheme of delegation; and
  - failure to manage the budget effectively and deliver services within allocated resources to meet the statutory duty to achieve financial balance.

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## 2. Detailed Audit Findings

### **Objective 1: the allocation of funds and resources through the budget framework align with the Health Boards Annual Plan objectives and priorities**

- 2.1 The Health Board revenue budget allocations for 2021/22 were communicated by Welsh Government in December 2020, with a revenue resource limit of £889.045m for the year. The financial allocation reported in the Draft Financial Enabling Plan presented to the Health Board in March 2021 with the Annual Recovery Plan is in line with the Welsh Government resource allocation.
- 2.2 The delegation of budgets across the organisation and the onward submission of the Annual Recovery Plan to Welsh Government was approved by the Board at the March 2021 meeting, with the Board acknowledging the overall forecast of £57.4m deficit position.
- 2.3 We sampled seven planning objectives / priorities / new initiatives included within the approved Annual Recovery Plan and were provided with ledger extracts to demonstrate that these have been incorporated within the 2021/22 budget.
- 2.4 The month 6 position presented to the Sustainable Resources Committee in October 2021 reported a revised financial plan to deliver a deficit of £25m after savings of £16.1m and anticipated £32.4m non-recurrent funding from Welsh Government to offset the underlying deficit position brought forward from 2020/21.
- 2.5 Identified savings opportunities are referred to and form part of the Annual Plan presented to both the Health Board and the Finance Committee during March 2021. At month 6 the Health Board had delivered £3.5m of the £16m target for 2021/22 and is therefore identified as medium risk. We recognise that service pressures are impacting on the Health Board's ability to identify and progress non-recurrent savings opportunities.

#### Conclusion:

- 2.6 Whilst acknowledging the challenges of the current financial position we have concluded **Reasonable** assurance for this objective, as result of the systems and process in place for financial management.

### **Objective 2: budgetary responsibility is clearly delegated to budget holders and consistent with the scheme of delegation.**

- 2.7 The Budgetary Control Procedure FP04/01 approved by the Finance Committee on the 25<sup>th</sup> of February 2021 outlines the budgetary control process and the responsibilities of budget holders within the Health Board.
- 2.8 At the beginning of the financial year, Accountability Agreement letters were sent to all budget holders in accordance with the stipulations of the Budgetary Control procedure. A total of 32 accountability letters were issued, with a review of the

Accountability Agreement log noting that only 16 letters had been authorised and returned as at the 28th of September 2021. **[See Matter Arising 1 in Appendix A]**

- 2.9 A review was undertaken to ensure that delegated budgetary responsibilities are clearly established. All officers that have budgetary responsibility have responsibility for both income and expenditure within their budgets. The Scheme of Delegation is included within the Standing Financial Instructions setting out the financial limits for the Board and senior officers of the Health Board, and Finance maintains the purchasing hierarchy within Oracle.
- 2.10 Testing identified that of the 16 budget holders who acknowledged ownership and responsibility of their budgets, eight had documented their concerns about managing their service(s) within the allocated budget. Where this was the case, it was evident that the associated risks had been captured and recorded on the risk register.

#### Conclusion:

- 2.11 Noting the above, we have concluded **Reasonable** assurance for this objective.

### Objective 3: sufficient, relevant and reliable information is available to budget holders to aid with budget management

- 2.12 An email is circulated by Finance monthly to all budget holders containing a link to the Finance Dashboard Portal. All budget holders and finance business partners (FBP) are able to access the BI Dashboards at any point in time. The access logs for both Qlikview and the BI Dashboards were ascertained. The logs maintain an automatic record of the number of occasions where each budget holder and FBP have logged in.
- 2.13 A reconciliation was undertaken between the listing of budget holders as per the Accountability Agreement Log to both the Qlikview and the BI Dashboard access logs to establish the extent to which these systems are used for budget monitoring. Only one budget holder had accessed the BI Dashboard or Qlikview for each month of the period tested. **[See Matter Arising 2 in Appendix A]**

June – October 2021	QlikView	BI Dashboards
1+ logins	5	13
Not Accessed	27	19
<b>Total Budget Holders</b>	<b>32</b>	<b>32</b>

- 2.14 Discussions with the FBPs noted that budget line detail is monitored throughout the month to identify any fluctuations or unusual activity, and forms part of the monthly meetings with the budget holders. In addition, the FBPs attend ad hoc and

weekly directorate team meetings to provide further financial support, additional analysis and scrutiny of key cost drivers affecting individual budgets, enable more accurate forecasting and the identification of opportunities and risks.

2.15 A virement form must be completed for budget transfers between the budget managers. Authorisation requirements stipulated within the Budgetary Control Procedure are in line with the Oracle purchasing hierarchy and Scheme of Delegation as follows:

Approval Requirements per Scheme of Delegation	Budget Transfer Value
Board (following CEO / ET approval)	> £1,000,000
CEO (and Executive Team) CEO / Deputy <u>and</u> DoF	> £500,000 ≤ £1,000,000
CEO <u>or</u> DoF Only required if transfer exceeds Budget Manager delegated limit	≤ £500,000
Budget Manager (transferring and recipient)	All

2.16 Review of the 2021/22 Virement Summary identified 22 virements to date with a total value of £1.88m – all individually below £500,000. Sample testing of five virements identified:

- one virement had no evidence of approval from the budget managers or CEO/DoF;
- in four cases the value of the virement exceeded the budget managers delegated limit and there was no evidence of CEO or DoF approval in line with the Scheme of Delegation; and
- in all cases, section 3 of the Virement Form had not been completed by Finance to confirm processing.

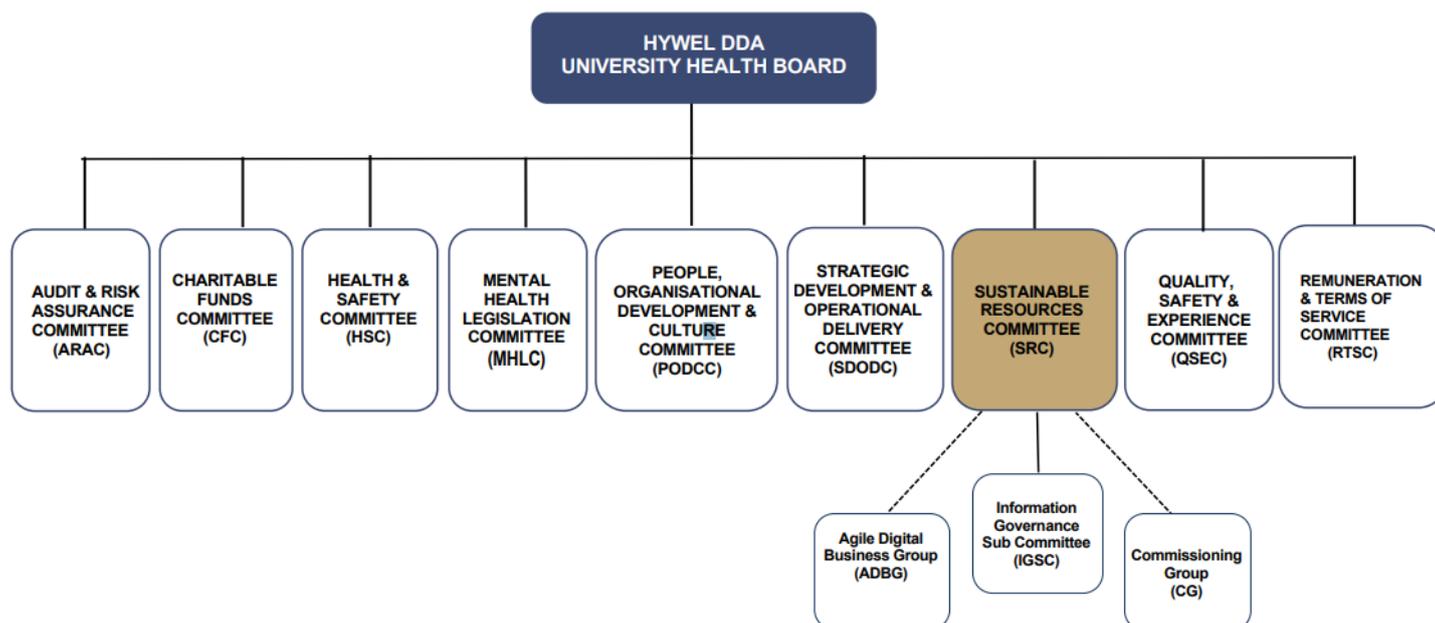
**[See Matter Arising 3 in Appendix A]**

**Conclusion:**

2.17 Evidence suggests limited and inconsistent use of BI Dashboards and QlikView for budget monitoring purposes, although we recognise that the FBPs liaise with budget holders on an ongoing basis to monitor the budget position. Testing identified non-compliance with the Scheme of Delegation in the authorisation of budget virements. Consequently, we have concluded Reasonable assurance for this objective.

#### Objective 4: appropriate monitoring and reporting arrangements are in place within the Health Board in relation to budgetary information.

2.18 In August 2021, the Finance Committee (FC) was replaced with the newly formed Sustainable Resources Committee (SRC), a sub-committee of the Board responsible for providing assurance to the Health Board that risks affecting finance are being identified, assessed and managed effectively.



2.19 We observed bi-monthly Finance Reports presented to the Sustainable Resources Committee and previously the Finance Committee. The reports outline the Health Board's current and forecast year-end financial position against the 2021/22 Annual Recovery Plan, and include the monthly financial monitoring returns submitted to Welsh Government.

2.20 A paper on the Operational Risk Register is also presented, which identifies 10 operational risks in relation to budgets. The risks are all in relation to the failure of the directorate to remain within their allocated budget. Following identification, they have become a part of the SRC Risk Register and will be reviewed and monitored on a bi-monthly basis.

2.21 It is evident from a review of the Board meeting minutes that the papers presented to both the previous Finance Committee and the Sustainable Resources Committee are noted and acknowledged.

#### Conclusion:

2.22 Noting the above, we have concluded **Substantial** assurance for this objective.

## Appendix A: Management Action Plan

<b>Matter Arising 1: Accountability Agreement Letters (Operation)</b>		<b>Impact</b>
<p>At the beginning of the financial year, Accountability Agreement letters were sent to all budget holders in accordance with the stipulations of the Budgetary Control procedure. A total of 32 accountability letters were issued, with a review of the Accountability Agreement log noting that only 16 letters had been authorised and returned as at the 28th of September 2021.</p>		<p>Potential risk of:</p> <ul style="list-style-type: none"> <li>failure to manage the budget effectively and deliver services within allocated resources to meet the statutory duty to achieve financial balance.</li> </ul>
<b>Recommendations</b>		<b>Priority</b>
<p>1.1 The Health Board should ensure that all budget holders sign the Accountability Agreement letters, as evidence of accepting ownership of their individual budgets, in order that they can be held to account for the financial performance.</p>		<b>Medium</b>
<b>Agreed Management Action</b>	<b>Target Date</b>	<b>Responsible Officer</b>
<p>Through the annual financial planning process, all Accountability Agreement Letters should be signed no later than the end of two months into the new financial year.</p>	1 <sup>st</sup> June 2022	Deputy Director of Finance

Matter Arising 2: Qlikview and BI Dashboard Access Log (Operation)			Impact												
<p>A reconciliation was undertaken between the listing of budget holders as per the Accountability Agreement Log to both the Qlikview and the BI Dashboard access logs to establish the extent to which these systems are used for budget monitoring. Only one budget holder had accessed the BI Dashboard or Qlikview for each month of the period tested. We do however recognise that budget line detail is monitored with the FBPs on an ongoing basis.</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th style="background-color: #d9e1f2;">June – October 2021</th> <th style="background-color: #d9e1f2;">QlikView</th> <th style="background-color: #d9e1f2;">BI Dashboards</th> </tr> </thead> <tbody> <tr> <td style="background-color: #d9e1f2;"><b>1+ logins</b></td> <td style="text-align: center;">5</td> <td style="text-align: center;">13</td> </tr> <tr> <td style="background-color: #d9e1f2;"><b>Not Accessed</b></td> <td style="text-align: center;">27</td> <td style="text-align: center;">19</td> </tr> <tr> <td style="background-color: #d9e1f2;"><b>Total Budget Holders</b></td> <td style="text-align: center;"><b>32</b></td> <td style="text-align: center;"><b>32</b></td> </tr> </tbody> </table>			June – October 2021	QlikView	BI Dashboards	<b>1+ logins</b>	5	13	<b>Not Accessed</b>	27	19	<b>Total Budget Holders</b>	<b>32</b>	<b>32</b>	<p>Potential risk of:</p> <ul style="list-style-type: none"> <li>• non-compliance with Health Board policies, procedures and scheme of delegation; and</li> <li>• failure to manage the budget effectively and deliver services within allocated resources to meet the statutory duty to achieve financial balance.</li> </ul>
June – October 2021	QlikView	BI Dashboards													
<b>1+ logins</b>	5	13													
<b>Not Accessed</b>	27	19													
<b>Total Budget Holders</b>	<b>32</b>	<b>32</b>													
Recommendations			Priority												
<p>2.1 Budget holders should be reminded of their responsibility to monitor and manage their budgets, and make use of the available tools to do this.</p> <p>2.2 Management should consider monitoring budget holder use of the BI Dashboards and QlikView systems.</p>			<b>Medium</b>												
Agreed Management Action		Target Date	Responsible Officer												

<p>Recognising the need for familiarisation with the reports and systems across budget holders, there are different methods employed by Finance Business Partnering teams to support their budget holders with how to access and review their financial information. Each FBP team should review the financial position monthly with their budget holders, in an appropriate manner, and ongoing training provided to ensure budget holders move towards a self-service approach.</p>	1 <sup>st</sup> July 2022	All Finance Business Partners, overall management provided by the Assistant Directors of Finance leading Business Partnering for their relevant portfolios.
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<b>Matter Arising 3: Authorisation and Completion of Virement Forms (Operation)</b>	<b>Impact</b>
<p>Review of the 2021/22 Virement Summary identified 22 virements to date with a total value of £1.88m – all individually below £500,000. Sample testing of five virements identified:</p> <ul style="list-style-type: none"> <li>• one virement had no evidence of approval from the budget managers or CEO/DoF;</li> <li>• in four cases the value of the virement exceeded the budget managers delegated limit and there was no evidence of CEO or DoF approval in line with the Scheme of Delegation; and</li> <li>• in all cases, section 3 of the Virement Form had not been completed by Finance to confirm processing.</li> </ul>	<p>Potential risk of:</p> <ul style="list-style-type: none"> <li>• Non-compliance with Health Board policies, procedures and scheme of delegation.</li> </ul>
<b>Recommendations</b>	<b>Priority</b>

<p>3.1a All virements should be appropriately authorised in line with the stipulations of the Budgetary Control procedure, subject to a review of the current criteria within the procedure.</p> <p>3.1b Management should ensure that Section 3 of the Virement form is fully completed in line with the requirements of the Budgetary Control procedure.</p>	<b>Medium</b>	
<b>Agreed Management Action</b>	<b>Target Date</b>	<b>Responsible Officer</b>
<p>All virements transacted across directorates, excluding funding allocations from reserves, should be accompanied by a fully completed and approved virement form, in line with Budgetary Control procedures, which will be managed by the Financial Officer within the Corporate Reporting and Planning team, who will store the forms at the same time as approving the budget adjusted in the budget system.</p>	<p>1<sup>st</sup> April 2022 (and ongoing)</p>	<p>Senior Finance Business Partner (Corporate Reporting)</p>

## 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:

	<b>Substantial assurance</b>	Few matters require attention and are compliance or advisory in nature. <b>Low impact</b> on residual risk exposure.
	<b>Reasonable assurance</b>	Some matters require management attention in control design or compliance. <b>Low to moderate impact</b> on residual risk exposure until resolved.
	<b>Limited assurance</b>	More significant matters require management attention. <b>Moderate impact</b> on residual risk exposure until resolved.
	<b>No assurance</b>	Action is required to address the whole control framework in this area. <b>High impact</b> on residual risk exposure until resolved.
	<b>Assurance not applicable</b>	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
<b>High</b>	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*
<b>Medium</b>	Minor weakness in system design OR limited non-compliance. Some risk to achievement of a system objective.	Within one month*
<b>Low</b>	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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