

Annual Audit Report 2020 – Hywel Dda University Health Board

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Contents

Summary report	
About this report	4
Key messages	5
Detailed report	
Audit of accounts	7
Arrangements for securing efficiency, effectiveness and economy in the use of resources	9
Appendices	
Appendix 1 – reports issued since my last annual audit report	12
Appendix 2 – audit fee	14
Appendix 3 – financial audit risks	15

Summary report

About this report

- 1 This report summarises the findings from my 2020 audit work at Hywel Dda University Health Board (the Health Board) undertaken to fulfil my responsibilities under the Public Audit (Wales) Act 2004. That Act requires me to:
 - examine and certify the accounts submitted to me by the Health Board, and to lay them before the Senedd;
 - satisfy myself that expenditure and income have been applied to the purposes intended and are in accordance with authorities; and
 - satisfy myself that the Health Board has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
- 2 I report my overall findings under the following headings:
 - Audit of accounts
 - Arrangements for securing economy, efficiency and effectiveness in the use of resources
- 3 This year's audit work took place at a time when public bodies were responding to the unprecedented and ongoing challenges presented by the COVID-19 pandemic. Given its impact, I re-shaped my planned work programmes by considering how to best assure the people of Wales that public funds are well managed. I considered the impact of the current crisis on both resilience and the future shape of public services and aimed to ensure my work did not hamper public bodies in tackling the crisis, whilst ensuring it continued to support both scrutiny and learning. All on-site audit work was suspended whilst we continued to work and engage remotely where possible through the use of technology. This inevitably had an impact on the delivery of some of my planned audit work but has also driven positive changes in our ways of working.
- 4 The delivery of my audit of accounts work was not without its challenges, not only in how and where we undertook the work, but also in taking account of new considerations for financial statements arising directly from the pandemic. The success in delivering to the amended timetable reflects a great collective effort by both my staff and the Health Board's officers to embrace and enable new ways of working and remain flexible to and considerate of the many issues arising.
- 5 At the onset of the pandemic I suspended the publication of some performance audit reports nearing completion, reflecting the capacity of audited bodies to support remaining fieldwork and contribute to the clearance of draft audit outputs. I have also adjusted the focus and approach of some other planned reviews to ensure their relevance in the context of the crisis. New streams of work have been introduced, such as my review of the Test, Trace and Protect programme, and my local audit teams have contributed to my wider COVID-19 learning work.

- 6 This report is a summary of the issues presented in more detailed reports to the Health Board this year (see **Appendix 1**). I also include a summary of the status of planned work currently being re-scoped.
- 7 **Appendix 2** presents the latest estimate of the audit fee that I will need to charge to cover the costs of undertaking my work, compared to the original fee set out in the 2020 Audit Plan.
- 8 **Appendix 3** sets out the financial audit risks set out in my 2020 Audit Plan and how they were addressed through the audit.
- 9 The Chief Executive, the Director of Finance and Board Secretary have agreed the factual accuracy of this report. We presented it to the Audit and Risk Assurance Committee (ARAC) on 15 December 2020. The Board will receive the report at its January 2021 Board meeting and every member will receive a copy. We strongly encourage the Health Board to arrange its wider publication. We will make the report available to the public on the [Audit Wales website](#) after the Board have considered it.
- 10 I would like to thank the Health Board's staff and members for their help and co-operation throughout my audit.

Key messages

Audit of accounts

- 11 I concluded that the Health Board's accounts were properly prepared and materially accurate and issued an unqualified audit opinion on them. My work did not identify any material weaknesses in the Health Board's internal controls (as relevant to my audit). However, I placed an Emphasis of Matter paragraph in my report to draw attention to disclosures in the accounts relating to Note 21 of the financial statements, which describes the impact of a Ministerial Direction issued on 18 December 2019 to the Permanent Secretary of the Welsh Government, instructing her to fund NHS Clinicians' pension tax liabilities incurred by NHS Wales bodies in respect of the 2019-20 financial year. My opinion was not modified in this respect. I brought several issues to the attention of officers and the Audit Committee, as detailed later in this report.
- 12 The Health Board did not achieve financial balance for the three-year period ending 31 March 2020, and although it had no other material financial transactions that were not in accordance with authorities nor used for the purposes intended, I have issued a qualified opinion on the regularity of the financial transactions within the Health Board's 2019-20 accounts.
- 13 Alongside my audit opinion, I placed a substantive report on the Health Board's financial statements to highlight the failure to achieve financial balance and to have an approved three-year plan in place.

Arrangements for securing efficiency, effectiveness and economy in the use of resources

- 14 My programme of Performance Audit work has led me to draw the following conclusions:
- the Health Board has maintained good governance throughout the COVID-19 pandemic;
 - the Health Board continues to face financial challenges, exacerbated by the impact of COVID-19 but has maintained effective financial controls, monitoring and reporting;
 - operational plans are informed by strengthened data modelling, and a commitment to stakeholder engagement, regional solutions and staff well-being, with clear arrangements for monitoring performance and delivery. However, another peak in COVID-19 poses a significant risk to workforce arrangements; and
 - the Health Board demonstrates a strong commitment to counter-fraud, has suitable arrangements to support the prevention and detection of fraud and is able to respond appropriately where fraud occurs.
- 15 These findings are considered further in the following sections.

Detailed report

Audit of accounts

- 16 This section of the report summarises the findings from my audit of the Health Board's financial statements for 2019-20. 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 the appropriate stewardship of public money.
- 17 My 2020 Audit Plan set out the financial audit risks for the audit of the Health Board's 2019-20 financial statements. Exhibit 4 in **Appendix 3** lists these risks and sets out how they were addressed as part of the audit.
- 18 My responsibilities in auditing the Health Board's financial statements are described in my [Statement of Responsibilities](#) publications, which are available on the [Audit Wales website](#).

Accuracy and preparation of the 2019-20 financial statements

- 19 **I concluded that the Health Board's accounts were properly prepared and materially accurate and issued an unqualified audit opinion on them. My work did not identify any material weaknesses in the Health Board's internal controls (as relevant to my audit). However, I placed an Emphasis of Matter paragraph in my report to draw attention to disclosures in the accounts relating to Note 21 of the financial statements, which describes the impact of a Ministerial Direction issued on 18 December 2019 to the Permanent Secretary of the Welsh Government, instructing her to fund NHS Clinicians' pension tax liabilities incurred by NHS Wales bodies in respect of the 2019-20 financial year. My opinion was not modified in this respect. I brought several issues to the attention of officers and the Audit Committee, as detailed later in this report.**
- 20 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 ARAC on 23 June 2020. **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	There were no misstatements which remained uncorrected
Corrected misstatements	There were initially misstatements which were corrected by management. These were brought to the attention of ARAC in my financial statements report.
Other significant issues	The Health Board had accrued for the costs associated with changing contractor for orthodontic dental treatment, £693,000. It was unclear whether this accrual was required, and the Health Board has agreed to raise its concerns with Welsh Government to clarify this issue as orthodontic treatment is part of a nationally agreed framework.

- 21 I also undertook a review of the Whole of Government Accounts return. I concluded that the counterparty consolidation information was consistent with the Health Board's financial position at 31 March 2020 and the return was prepared in accordance with the Treasury's instructions.
- 22 My separate audit of the charitable funds financial statements was reported to the charitable funds committee on 30 November 2020 and an unqualified opinion was issued on 15 December 2020. There were no issues arising from the audit which I wish to bring to your attention.

Regularity of financial transactions

- 23 **The Health Board did not achieve financial balance for the three-year period ending 31 March 2020, and although had no other material financial transactions that were not in accordance with authorities nor used for the purposes intended, I have issued a qualified opinion on the regularity of the financial transactions within the Health Board's 2019-20 accounts.**
- 24 The Health Board's financial transactions must be in accordance with authorities that govern them. The Health Board must have the powers to receive the income and incur the expenditure. 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.

- 25 Where a Health Board does not achieve financial balance, its expenditure exceeds its powers to spend and so I must qualify my regularity opinion. As shown in Note 2.1 to the Financial Statements, the LHB did not manage its revenue expenditure within its resource allocation over this three-year period, exceeding its cumulative revenue resource limit of £2,489.832 million by £139.811 million.
- 26 **Alongside my audit opinion, I placed a substantive report on the Health Board's financial statements to highlight the failure to achieve financial balance and to have an approved three-year plan in place.**
- 27 I have the power to place a substantive report on the Health Board's accounts alongside my opinions where I want to highlight issues. Due to the Health Board's failure to meet financial duties I issued a substantive report setting out the factual details: it failed its duty to achieve financial balance (as set out above) and it does not have an approved three-year plan in place and is working to an annual plan.

Arrangements for securing efficiency, effectiveness and economy in the use of resources

- 28 I have a statutory requirement to satisfy myself that the Health Board has proper arrangements in place to secure efficiency, effectiveness and economy in the use of 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 corporate arrangements for ensuring that resources are used efficiently, effectively and economically; and
 - reviewing the effectiveness of the Health Board's counter-fraud arrangements.
- 29 My conclusions based on this work are set out below.

Structured assessment

- 30 My structured assessment work was designed in the context of the ongoing response to the pandemic. I ensured a suitably pragmatic and relevant approach to help me discharge my statutory responsibilities, whilst minimising the impact on NHS bodies as they responded to the next phase of the COVID-19 pandemic. The key focus of the work was on the corporate arrangements for ensuring that resources are used efficiently, effectively and economically. Auditors also paid attention to progress made to address previous recommendations where these related to important aspects of organisational governance and financial management especially in the current circumstances.
- 31 The structured assessment grouped our findings under three themes:

- governance arrangements;
- managing financial resources; and
- operational planning: to support the continued response to the pandemic balanced against the provision of other essential services.

Governance arrangements

- 32 My work considered the Health Board's ability to maintain sound governance arrangements while having to respond rapidly to the unprecedented challenges presented by the pandemic.
- 33 My work found that the Health Board has worked within revised frameworks to discharge Board duties and maintain good governance. Adapting quickly to virtual meetings, the Board has continued to conduct its business in an open and transparent way. Revised governance arrangements have supported rapid decision making and effective scrutiny, with a focus on learning and improvement embedded. Systems of assurance have also been maintained, with a strong focus on the quality and safety of services.

Managing financial resources

- 34 I considered the Health Board's financial performance, changes to financial controls during the pandemic and arrangements for monitoring and reporting financial performance.
- 35 I found that the Health Board continues to face financial challenges, exacerbated by the impact of COVID-19 but is trying to recover the financial position over the longer term. With a year-end deficit of £34.9 million, it did not meet its financial duties and is forecasting a deficit of £25 million for 2020-21. Without additional funding, the year-end deficit is likely to be much greater as a result of COVID-19. During the pandemic, the Health Board has, however, maintained effective financial controls, and comprehensive reporting has supported timely scrutiny and assurance on the financial position.

Operational Planning

- 36 My work considered the Health Board's progress in developing and delivering quarterly operational plans to support the ongoing response to COVID-19 and to provide other essential services and functions in line with Welsh Government planning guidance. At the time of our work, the focus was on essential services with the aim of restoring normal and routine activities when it is safe and practicable to do so.
- 37 My work found that the Health Board has developed operational plans in line with the Welsh Government guidance, supported by a rapidly advancing approach to data modelling and guided by stakeholders. All essential services are being maintained with a cautious and flexible approach to recovering routine services.

Regional solutions are being considered and arrangements are in place to learn from the pandemic and to accelerate the delivery of the Health and Care Strategy. The Health Board is highly committed to staff wellbeing, although it recognises that staffing remains a significant risk in the event of a second COVID-19 peak. The Health Board is maintaining good oversight and scrutiny of performance and delivery and is reshaping performance reporting in response to the changing requirements arising from the pandemic.

Effectiveness of counter-fraud arrangements

- 38 In June 2019, I published an [overview for the Public Accounts Committee](#) describing counter-fraud arrangements in the Welsh public sector. My team then undertook a more detailed examination across a range of Welsh public sector bodies to examine how effective counter-fraud arrangements are in practice and to make recommendations for improvement. In July 2020 I published [Raising Our Game – Tackling Fraud in Wales](#) setting out a summary of my findings and seven 'key themes' that all public bodies need to focus on in raising their game to tackle fraud more effectively.
- 39 Whilst this work was not included in the Health Board's audit plan, I also published an additional report setting out the Health Board's specific arrangements for preventing and detecting fraud. I found that the Health Board demonstrates a strong commitment to counter-fraud, has suitable arrangements to support the prevention and detection of fraud and is able to respond appropriately where fraud occurs.

Appendix 1

Reports issued since my last annual audit report

Exhibit 2: reports issued since my last annual audit report

Report	Date
Financial audit reports	
Audit of Financial Statements Report	June 2020
Opinion on the Financial Statements	July 2020
Charitable funds Audit of Financial Statements Report	November 2020
Charitable funds Opinion on the Financial Statements	December 2020
Performance audit reports	
Structured Assessment 2020	September 2020
Effectiveness of counter-fraud arrangements	August 2020
Other	
2020 Audit Plan	February 2020

Exhibit 3: performance audit work still underway

Report	Estimated completion date
Orthopaedics	December 2020
Review of Welsh Health Specialised Services Committee	December 2020
Test, Trace and Protect	December 2020
Unscheduled care	Phase 1 – February 2021 Further work to be included as part of 2021 plan
Review of the sustainable use of Referral to Treatment Times (RTT) monies	March 2021
Quality Governance arrangements	April 2021

Appendix 2

Audit fee

The 2020 Audit Plan set out the proposed audit fee of £371,355 (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 4: financial audit risks

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"> • test the appropriateness of journal entries and other adjustments made in preparing the financial statements; • review accounting estimates for biases; and • and evaluate the rationale for any significant transactions outside the normal course of business. 	<p>My audit team:</p> <ul style="list-style-type: none"> • tested the appropriateness of journal entries and other adjustments made in preparing the financial statements; • reviewed accounting estimates for biases; and <p>Audit testing proved satisfactory and there were no significant transactions outside the normal course of business.</p>
<p>There is a significant risk that the Board will fail to meet its first financial duty to break even over a three-year period. The position at month nine shows a forecast year-end deficit of £25 million. This combined with the outturns for 2017-18 and 2018-19, predicts a three-year deficit of £122 million. Where the Board fails this financial duty, I will place a substantive report on the financial</p>	<p>My audit team will focus its testing on areas of the financial statements which could contain reporting bias.</p>	<p>My team's audit testing did not identify any instances of reporting bias. I qualified my regularity opinion and issued a substantive report covering the Health Board's failure to achieve both of its financial duties.</p>

<p>statements highlighting the failure.</p> <p>In addition, the current financial pressures on the Board increase the risk that management judgements and estimates could be biased in an effort to achieve a particular financial out-turn.</p>		
<p>The NHS Pension Authority required a 6.03% increase in employer pension contribution in 2019-20. Welsh Government agreed to fund and pay this additional contribution directly. This additional contribution and the associated funding may need to be reflected in the LHB's accounts.</p>	<p>We will check that the Health Board has correctly accounted for this increase in contribution and the associated funding.</p>	<p>My audit testing identified a misstatement in the presentation of this transaction which management agreed to amend.</p>
<p>On 18 December 2019 the First Minister issued a formal Ministerial Direction to the Permanent Secretary requiring her to implement a 'scheme pays' initiative in respect of the NHS pension tax arrangements for clinical staff.</p>	<p>We are considering the accounting treatment and audit implications of the direction (the first in Wales since 1999) in conjunction with the NAO who are currently addressing the same issue in NHS England.</p>	<p>The Health Board agreed to include a contingent liability note referring to the potential financial effect of this direction and included an emphasis of matter paragraph in my opinion referring to this disclosure.</p>



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