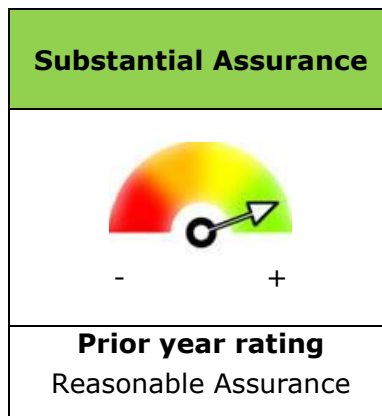


CRC Energy Efficiency Scheme
Final Internal Audit Report
Cwm Taf University Health Board
2018/19

Private and Confidential

NHS Wales Shared Services Partnership
Audit and Assurance Services



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Review reference:	SSU_CTU_1819_03
Report status:	Final
Fieldwork commencement:	19 June 2018
Fieldwork completion:	25 July 2018
Draft Report issued:	30 July 2018
Management response received	7 August 2018
Final report issued:	23 August 2018
Auditor/s:	NWSSP A&A: Specialist Services Unit
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Committee	Audit 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 Committee.

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1. Introduction and Background

The CRC Energy Efficiency Scheme (CRC) is a UK Government initiative to reduce carbon dioxide (CO₂) emissions from large and medium-sized organisations meeting certain qualification criteria.

Participation for these organisations is mandatory. The first phase of the scheme ran from April 2010 to the end March 2014. The second phase (which all NHS Wales Health Boards joined) runs from 1 April 2014 to 31 March 2019.

The UK government announced in 2016 that the CRC energy efficiency scheme will be abolished following the 2018/19 compliance year.

Health Boards are required to submit their annual report by 31 July 2018.

The CRC guidance states a requirement for participants to be subject to an annual internal audit review to ensure compliance with guidance.

2. Scope and Objectives

The assignment originates from the 2018/19 internal audit plan.

The overall objective of the review was to assess compliance with CRC requirements and guidance.

The scope of the audit review was limited to the following aspects:

- Follow up: Assurance that recommendations made in prior audits had been appropriately addressed;
- A review of the 2017/18 annual report (due for submission by 31st July 2018), to assess:
 - Accuracy of reported figures/totals;
 - Correct treatment of data including actuals/estimates, inclusions/exclusions etc.; and
 - Audit trail to supporting evidence;
- Assessment of the management of the purchase of allowances; and
- Sufficiency of the Evidence Pack.

This review drew on the findings of any relevant audit assignments undertaken within the reporting year to prevent any duplication.

3. Associated Risks

The potential risks considered in the review were as follows:


- Failure to implement previously agreed recommendations;
- CRC guidance was not being followed;
- Reported data was inaccurate, which may incur financial penalties;
- Failure to sufficiently budget for, or achieve value for money from, the purchase of allowances; and
- Evidence pack was not appropriately maintained.

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 level of assurance given as to the effectiveness of the system of internal control in place to manage the risks associated with the CRC Energy Efficiency Scheme is **Substantial Assurance**.

RATING	INDICATOR	DEFINITION
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.

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.

5. Assurance Summary

The summary of assurance given against the individual objectives is described in the table below:

Assurance Summary					
1	Follow up				✓
2	Annual Report Data				✓
3	Purchase of Allowances				✓
4	Evidence Pack				✓

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

Design of Systems/Controls

The findings from the review have highlighted **0** issues that are classified as a weakness in the system control/design for managing the requirements of the CRC Scheme.

Operation of System/Controls

The findings from the review have highlighted **1** issue that is classified as weaknesses in the operation of the designed system/control for managing the requirements of the CRC Scheme.

6. Summary of Audit Findings

Follow Up



Assurance was sought that previously agreed management actions had been implemented. The status of agreed management actions arising from previous reviews is as follows:

Closed	Outstanding	Total
4	-	4

Detail behind this summary is included at **Appendix B**.

Annual Report Data



Data System

The UHB utilises the Team energy management system; recording data input from self reads, invoices and supplier statements. Team includes a CRC module that generates the figures required for the annual CRC report.

Data Accuracy

The CRC procedural document had been updated and ratified by the Energy Team to assist the individual officers charged with the delivery of the CRC annual report.

We sampled 95% of the reported electricity consumption figure and 93% of the reported gas consumption figure, confirming reconciliation to data taken from supplier statements and/or the Team system.

Fourteen sites [for both electricity and gas reported figures] were sampled and reconciled to working papers, with the majority of calculations correct. However, some anomalies were noted due to the late receipt of the energy supplier statement, affecting the figures reported for Prince Charles Hospital.

The impact of the anomalies resulted in a decrease of 89,342 kWh [electricity consumption] reported and a decrease of 1,663,880 kWh [gas consumption] reported: a reduced cost of £5,558 for the UHB (using the 2017/18 forecast sale allowance price). These were discussed with the UHB; and amended prior to submission of the evidence pack. Refer to **Appendix C** for details of the amendments. (**Recommendation 1**).

Whilst the adjustments did not exceed the 5% threshold as per the CRC guidance¹, the UHB has been prudent in making the required amendments to the reported figures in advance of submission to the CRC Registry.

Estimated Data

The UHB reported 0.3% of total electricity and 25% of total gas consumption as estimated at the 2017/18 CRC report. As estimated supplies incur a 10% uplift by way of penalty for failing to hold accurate data, this incurred £3,154.67 in additional costs for the UHB (using the 2017/18 forecast sale allowance price).

The estimated data related to two sites [Hirwaun Medical Centre: electricity and Royal Glamorgan Hospital: gas]. The decision to report these supplies as estimated was due to supplier issues being experienced with the meter readings.

¹ You may be liable to a penalty for inaccurate reporting where any of the supplies or emissions reported differs by more than 5% from the supplies or emissions which should have been reported, ignoring any estimation adjustments.

100% of both the estimated electricity and gas consumption was assessed for accuracy of calculations and compliance with CRC guidance. The estimated consumption for Royal Glamorgan did not reconcile to the supplier statement. This was discussed with the UHB; and amended prior to submission of the evidence pack.

Whilst the adjustments did not exceed the 5% threshold as per the CRC guidance, the UHB has been prudent in making the required amendments to the reported figures in advance of submission to the CRC Registry. Refer to **Appendix C** for details of the amendment.

Corporate Responsibility Questions

The UHB was able to provide affirmative answers to the four corporate responsibility questions, and had sufficient evidence to support these answers in accordance with the CRC guidance.

Report Submission

Calculated totals were uploaded to the CRC Registry, in advance of the deadline of 31 July 2018.

Annual Report Data: Conclusion

Noting the discrepancies between reported figures and supporting documentation, and acknowledging that the UHB took appropriate steps to review and amend the data, **substantial assurance** has therefore been determined in this section.

Purchase of Allowances



Each year the UHB is required to purchase sufficient allowances to cover their CO2 emissions. Purchase can either be in the forecast sale at the lower rate at the start of the year or retrospectively at year-end at a higher rate.

Good communication was noted between the Head of Finance and the Energy Manager regarding the CRC timetable for purchasing and payment.

Furthermore, a strategy has been developed for the forecast and/or buy-to-comply sales required during 2018/19 noting that the current CRC phase is due for completion on 31 March 2019. Forecast sales were the preferred option; with the intention to keep any later purchases to a minimum therefore ensuring a financially viable route of purchase for the UHB.

The UHB purchased 10,000 allowances in the forecast sale in April 2017 at a total cost of £172,000 i.e. taking advantage of the lower allowance rate offered through early purchase. This approach yielded a reduction of £11,000 compared with the cost of having to purchase these allowances in the buy-to-comply sale at year-end.

Noting the UHB's strategy for purchase of allowances, supported by comprehensive calculations and support of both energy and finance managers, **substantial assurance** has been determined in this section.

Evidence Pack



There was a comprehensive electronic evidence pack retained in accordance with CRC requirements. **Substantial assurance** has therefore been determined in this area.

7. Summary of Recommendations

The audit findings, 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 raised	-	-	1	1
Actioned since fieldwork	-	-	1	1
Number of recommendations to address	-	-	-	-

Finding: Accuracy of reported data	Risk
<p>We sampled 95% of the total reported electricity consumption figure and 93% of the total reported gas consumption figure, confirming reconciliation to data taken from supplier statements and / or the Team system.</p> <p>The statement as provided to audit contained anomalies for which the UHB awaited supplier statements to correct. This resulted in a decrease of 89,342 kWh in the reported electricity consumption, and a decrease of 1,663,880 kWh in reported gas - a combined reduction of £5,558 (2%) for the UHB (as contrasted to the 2017/18 forecast sale allowance price).</p> <p>Refer to Appendix C for details of the amendments.</p> <p>In addition to the above, an immaterial anomaly was noted with the estimated gas consumption recorded for Royal Glamorgan Hospital.</p>	<p>Incorrect consumption figures reported; and risk of financial penalties if errors identified at external audits.</p>
Recommendation 1	Priority level
<p>Management will amend the evidence pack for the errors / anomalies reported (O)</p>	<p>Low</p>
Management Response	Responsible Officer/ Deadline
<p>Agreed.</p>	<p>Amended prior to submission.</p>

Appendix B: Follow up of previously agreed recommendations

Ref	Recommendation [2017/18 audit]	Priority Rating	Status at 2018/19 audit	Updated Responsibility & Timescale
1	CRC procedure document will be updated and issued for formal approval.	Medium	<p>Closed</p> <p>The CRC procedure document had been agreed and ratified between the Energy Manager and the Head of Assets, Governance & Technical Systems.</p>	N/A
2	A quality assurance process will be introduced to allow for secondary check of methodology and calculations, prior to the annual CRC report being submitted.	Medium	<p>Closed</p> <p>The Energy Manager developed a checklist to support the compilation of the evidence pack. This was submitted for verification [including appropriate supporting documentation] to the Head of Assets, Governance & Technical Systems prior to final submission of the pack.</p>	N/A
3	The UHB will develop a formal strategy, approved accordingly, for the purchase of allowances over the remainder of the Phase [addressing how the final year will be managed]. The strategy will set out the financial implications of the preferred purchase strategy to ensure the UHB does not over commit in the purchase of allowances leaving it unable to use or sell back at the end of the current scheme.	Medium	<p>Closed</p> <p>The Energy Manager produced a forward forecast procedure in consultation with the finance leads.</p>	N/A

Ref	Recommendation [2017/18 audit]	Priority Rating	Status at 2018/19 audit	Updated Responsibility & Timescale
4	The Health Board will disclose long term reduction targets at the evidence pack to substantiate its positive answer to the relevant corporate responsibility question.	Low	Closed It was confirmed that the UHB's positive response was substantiated through reporting of long term reduction targets within the UHB's sustainability report. Noting this phase of CRC reporting comes to a close in March 2019, it will be of no benefit to start inclusion of these targets in the evidence pack.	N/A

Appendix C: Summary of errors / anomalies amended prior to submission of evidence pack

	Site / Meter	Consumption: Supplier Statement	Reported consumption figure	Amended consumption figure	Explanation for amendment
Electricity [Appendix 1]					
	Prince Charles Hospital [2100040775862]	1,034,799	1,053,761	1,034,799	Consumption reported did not reconcile to the year-end supplier statement received.
	Prince Charles Hospital [2199989628616]	3,517,109	3,587,489	3,517,109	Consumption reported did not reconcile to the year-end supplier statement received.
Gas [Appendix 3]					
	Prince Charles Hospital [21483502]	6,043,928	7,673,285	6,043,928	Consumption reported did not reconcile to the year-end supplier statement received.
	Prince Charles Hospital [21483210]	2,065,897	2,069,317	2,065,897	Consumption reported did not reconcile to the year-end supplier statement received.
	Prince Charles Hospital [21483300]	1,396,876	1,400,231	1,396,876	Consumption reported did not reconcile to the year-end supplier statement received.
	Hirwaun Medical Centre [9314071302]	139,070	166,818	139,070	Consumption reported did not reconcile to the year-end supplier statement received.

Appendix D: 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