

# Annual Audit Report 2022 – Cwm Taf Morgannwg University Health Board

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# Summary report

## About this report

- 1 This report summarises the findings from my 2022 audit work at Cwm Taf Morgannwg University (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 NHS bodies continued to respond to the unprecedented and ongoing challenges presented by the COVID-19 pandemic. Health bodies were not only tackling the immediate challenges presented by the public health emergency but were also seeking to recover and transform services to respond to the significant numbers of people who are waiting for treatment and improve population health. My work programme, therefore, was designed to best assure the people of Wales that public funds are well managed. I have considered the impact of the current crisis on both resilience and the future shape of public services.
- 4 I aimed to ensure my work did not hamper public bodies in tackling the crisis, whilst ensuring it continued to support both scrutiny and learning. We largely continued to work and engage remotely where possible through the use of technology, but some on-site audit work resumed where it was safe and appropriate to do so. This inevitably had an impact on how we deliver audit work but has also helped to embed positive changes in our ways of working.
- 5 As was the case in the previous two years, the delivery of my audit of accounts work has continued mostly remotely. The success in delivering it reflects a great collective effort by both my staff and the Health Board's officers.
- 6 I have adjusted the focus and approach of my performance audit work to ensure its relevance in the context of the crisis and to enable remote working. I have commented on how NHS Wales is tackling the backlog of patients waiting for planned care. My local audit teams have commented on how governance arrangements have adapted to respond to the pandemic, and the impact the crisis has had on service delivery.

- 7 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 work still underway, but not yet completed.
- 8 **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 2022 Audit Plan.
- 9 **Appendix 3** sets out the audit of accounts risks set out in my 2022 Audit Plan and how they were addressed through the audit.
- 10 The Chief Executive and the Director of Finance have agreed the factual accuracy of this report. We presented it to the Board on 30 March 2023, and the Audit and Risk Committee will consider it on 19 April 2023. 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 Audit and Risk Committee have considered it.
- 11 I would like to thank the Health Board staff and members for their help and co-operation throughout my audit.

## Key messages

### Audit of accounts

- 12 I concluded that the Health Board's 2021-22 accounts<sup>1</sup> were properly prepared and materially accurate and I therefore issued an unqualified true-and-fair opinion on them. My work did not identify any material weaknesses in the Health Board's internal controls (as relevant to my financial audit).
- 13 However, I qualified my regularity opinion because the accounts include an accounting provision (and corresponding expenditure) of £943,000, which I deem to be irregular. The amount relates to the Health Board's estimated liability arising from a Ministerial Direction in 2019 to the Permanent Secretary of the Welsh Government. This matter also affected other Welsh health boards.
- 14 I found no other regularity matters of a material adverse nature. In terms of financial performance, the Health Board achieved financial balance for the three-year period ending 31 March 2022, against both its revenue and capital resource limits.
- 15 I reported 14 audit issues, together with my audit recommendations, to officers and the Health Board's Audit and Risk Committee. Officers formally accepted 13 of the 14 recommendations and agreed management actions and dates of

<sup>1</sup> I audit and certify the Health Board's Performance Report, Accountability Report and Financial Statements. 'Accounts' is a generic term.

implementation. I will review the Health Board's progress with the actions as part of my 2022-23 audit.

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

- 16 My programme of Performance Audit work has led me to draw the following conclusions:
- Despite the additional investment in waiting list recovery, the significant growth in the numbers of people waiting is likely to mean that waiting lists will not return to pre-pandemic levels for many years.
  - The Cwm Taf Morgannwg Regional Partnership Board's Transformation Leadership Programme Board is well-placed to develop stronger regional working building on the productive relationships over the past 18 months. However, it needs to ensure its planning is more integrated and longer term, strengthen aspects of its governance arrangements, and be more ambitious in using its combined core resources to have a greater impact on the Cwm Taf Morgannwg region.
  - Contract arrangements following the health board boundary change in 2019<sup>2</sup> are sound and supported by good operational oversight and project management. However, there has been no clear programme for disaggregation of services until recently, and the lack of commissioning capacity and programme management, alongside the impact of COVID-19, has meant that the original timetable has not been met. Oversight and scrutiny of the programme at Board and committee level within both Health Boards also need to be improved, as well as the management of risk.
  - The temporary closure of the Minor Injuries Unit in Ysbyty Cwm Cynon could have been avoided if action had been taken sooner to strengthen managerial oversight of the unit as well as to address the concerns raised in 2018/19 around staff training and qualifications.
  - While corporate governance arrangements continue to develop and improve, the Health Board needs to strengthen its arrangements for addressing the significant performance and financial challenges it faces.
- 17 These findings are considered further in the following sections.

<sup>2</sup> On 1 April 2019, Welsh Government introduced changes to the boundaries of Abertawe Bro Morgannwg University Health Board (ABMUHB) and Cwm Taf University Health Board. Neath Port Talbot, Singleton and Murryston Hospitals, and services relating to the Swansea and Neath Port Talbot population became part of the new Swansea Bay University Health Board (UHB). The Princess of Wales Hospital, formerly part of ABMUHB, became part of the new Cwm Taf Morgannwg University Health Board (CTMUHB). Commissioning responsibility for the health needs of the Bridgend population transferred to CTMUHB.

# Detailed report

## Audit of accounts

- 18 Preparing annual accounts is an essential part of demonstrating the stewardship of public money. The accounts show the organisation’s financial performance and set out its net assets, net operating costs, gains and losses, and cash flows. My annual audit of those accounts provides an opinion on both their accuracy and the proper use (‘regularity’) of public monies.
- 19 My 2022 Audit Plan set out the key risks for audit of the accounts for 2021-22 and these are detailed along with how they were addressed in **Appendix 3 Exhibit 4**.
- 20 My responsibilities in auditing the accounts are described in my [Statement of Responsibilities](#) publications, which are available on the [Audit Wales website](#).

## Accuracy and preparation of the 2021-22 accounts

- 21 I concluded that the Health Board’s accounts were properly prepared and materially accurate (true and fair) and I 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 financial audit).
- 22 I reported 14 audit issues, together with my audit recommendations, to the officers and the Health Board’s Audit and Risk Committee. Officers formally accepted 13 of the 14 recommendations and agreed management actions and dates of implementation.
- 23 I must report issues arising from my work to those charged with governance (the Members of Board), for their consideration before I issue my audit opinion on the accounts. My audit team reported these issues to the Board on 14 June 2022. **Exhibit 1** summarises the key issues set out in that report.

### Exhibit 1: issues reported to the Board

Issue	Auditors’ comments
Uncorrected misstatements	<p>There were two areas of uncorrected misstatements.</p> <p>The first area relates to the value of the Health Board’s buildings, with their disclosed value as at 31 March 2022 being understated by £8.110 million. Three associated disclosures were also misstated by amounts of £5.619 million, £2.194 million, and £327,588.</p>

Issue	Auditors' comments
	<p>The second area related to an overstatement of £815,212, in respect of an invalid current-liability relating to general medical services' costs.</p> <p>I judge these misstatements not to be material to my audit opinions on the 2021-22 accounts.</p>
Corrected misstatements	I reported the four most significant areas of corrected misstatements. They related mainly to accounting classifications and disclosures.
Other significant issues	I reported 14 recommendations for improvement, with management's formal responses. The Health Board's Audit and Risk Committee considered them on 22 August 2022.

- 24 I undertook a review of the Health Board's Whole of Government Accounts return. I concluded that the counterparty consolidation information was consistent with the Health Board's financial position at 31 March 2022 and the return was prepared in accordance with the Treasury's instructions.
- 25 I audited the 2021-22 charitable funds' financial statements, which I certified with an unqualified opinion on 27 January 2023. The Charity Commission's annual deadline is 31 January.

## Regularity of financial transactions

- 26 I qualified my regularity opinion because the 2021-22 accounts include an accounting provision (and corresponding expenditure) of £943,000, which I deem to be irregular. The amount relates to the Health Board's estimated liability arising from a Ministerial Direction in 2019 to the Permanent Secretary of the Welsh Government. This matter also affected other Welsh health boards.
- 27 The Ministerial Direction covered the need for interim remedial action to address the impact of HM Treasury's changes to the tax arrangements on senior clinicians' pension contributions. I placed an explanatory narrative report alongside my audit report on the accounts.
- 28 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.

- 29 Where a Health Board does not achieve financial balance, its expenditure exceeds its powers to spend and so I must qualify my regularity opinion. **Exhibits 2 and 3** show that the Health Board met both its revenue and capital resource allocations.
- 30 Except for the £943,000, I found no material financial transactions that were not in accordance with authorities nor used for the purposes intended. In terms of financial performance, the Health Board achieved financial balance for the three-year period ending 31 March 2022

#### Exhibit 2: financial performance against the revenue resource allocation

	2019-20 £'000	2020-21 £'000	2021-22 £'000	Total £'000
Operating expenses	1,066,192	1,234,552	1,278,665	3,579,409
Revenue resource allocation	1,067,075	1,234,640	1,278,837	3,580,552
Under (over) spend against allocation	883	88	172	1,143

#### Exhibit 3: financial performance against the capital resource allocation

	2019-20 £'000	2020-21 £'000	2021-22 £'000	Total £'000
Capital charges	38,328	52,231	79,154	169,713
Capital resource allocation	38,332	52,278	79,196	169,826
Under (over) spend against allocation	24	47	42	113

Source: audited 2021-22 accounts

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

- 31 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 high-level review of how NHS Wales is tackling the planned care backlog.
- undertaking a baseline governance review of Cwm Taf Morgannwg Regional Partnership Board's Transformation Leadership Programme Board.
- undertaking a joint review at both Swansea Bay and Cwm Taf Morgannwg University Health Boards of the arrangements for overseeing and managing the contractual agreements established following the realignment of Health Board boundaries.
- undertaking a high-level review to examine the issues surrounding the temporary closure of the Minor Injuries Unit in Ysbyty Cwm Cynon.
- undertaking a structured assessment of the Health Board's corporate arrangements for ensuring that resources are used efficiently, effectively, and economically.

32 My conclusions based on this work are set out below.

## **Tackling the planned care backlog in Wales**

- 33 In May 2022, I published a report that set out the extent of the planned care backlog in NHS Wales, and the key actions the system needs to take to start to tackle the backlog. My report highlighted the continued growth of the overall waiting list numbers month on month, whilst noting the rate of growth was slowing. It also noted that the inevitable drop in referrals seen during the pandemic would likely result in this latent demand eventually coming back into the system. Taking these and other factors into account my work estimated that it could as much as seven years before overall waiting list numbers in Wales returned to pre-pandemic levels.
- 34 The Welsh Government has produced a national recovery plan for planned care with key milestones for health boards to achieve, including an initial focus on those patients facing very long waits. However, those milestones are already proving difficult to achieve.
- 35 In line with the key actions I set out in my report, the Health Board, along with others in Wales, will need to both build and protect capacity for planned care, and continue to maintain a focus on efficiency and productivity.
- 36 The Health Board will also need to ensure that it actively manages the clinical risks to patients that are facing long waits for treatment, and enhance its systems for communicating with patients to help them manage their condition whilst they are waiting and inform them of what to do if their condition deteriorates.

## Transformational Leadership Programme Board - Baseline Governance Review

- 37 My work considered whether the governance arrangements of the Cwm Taf Morgannwg Regional Partnership Board's Transformation Leadership Programme Board (TLPB) are supporting the four statutory partners<sup>3</sup> to develop effective and sustainable approaches to regional working.
- 38 In terms of the TLPB's planning arrangements, my work found that planning was moving from a short-term basis to a more medium-term basis with an increased focus on a 5-year planning period. However, strategic plans require a more integrated approach to developing a longer-term perspective, which is supportive of partners' plans and will deliver a stronger regional identity. The TLPB also needs to ensure that its planning is driven by the population's needs, rather than the funding regime. There are also opportunities to improve the TLPB internal engagement arrangements, especially in relation to increasing the voices of non-statutory partners.
- 39 In terms of the TLPB's governance arrangements, my work found that chairing of the TLPB meetings was effective, and we saw strong synergy between the meetings we observed. However, we found some variation in the quality of meeting papers, and limited evidence of scrutiny and challenge. Further work is needed in respect of key performance metrics and milestones, with the new outcomes and performance dashboard yet to be implemented. The Finance Sub-group was well structured, with constructive discussions and there was detailed financial reporting. However, the Cross-Cutting Programme Board was not yet operational, despite this being a key part of the governance architecture designed to oversee the development and delivery of regional cross-cutting services. In addition, risk management is an area that needs to be strengthened with the need for better articulation of shared risks, prioritisation, and mitigating actions.
- 40 In terms of TLPB resources, my work found that the TLPB was still developing its approach to the new Health and Social Care Regional Integrated Funding regime. Whilst there are examples of pooled funding and shared resources, these are limited, and the statutory partners need to consider how they can use their combined core resources more effectively to deliver the TLPB's plans and address the significant health and social care challenges in the region. The statutory partners have developed stronger relationships during the pandemic and need to build on these to do this. Like many areas in the public sector, there are significant workforce challenges in the region and there needs to be a regional and strategic approach to addressing these.

<sup>3</sup> The four statutory partners are: Cwm Taf Morgannwg University Health Board, Rhondda Cynon Taf County Borough Council, Merthyr Tydfil County Borough Council, and Bridgend County Borough Council.

## Commissioning and contracting arrangements post Bridgend boundary change

- 41 My work considered the robustness of the arrangements for overseeing and managing the contractual agreements established following the realignment of health board boundaries in 2019, which saw commissioning responsibility for the health needs of the Bridgend population transferred to Cwm Taf Morgannwg University Health Board. We also considered the programme for service disaggregation (for relevant services), and whether the arrangements support future regional service models being explored by Cwm Taf Morgannwg University Health Board and Swansea Bay University Health Board.
- 42 My work found that the contract arrangements are sound and supported by good operational oversight and project management. However, there has been no clear programme for disaggregation of services until recently, and the lack of commissioning capacity and programme management, alongside the impact of COVID-19, has meant that the original timetable has not been met. Oversight and scrutiny of the programme at Board and committee level within both health boards also need to be improved, as well as the management of risk.
- 43 My work found that there are comprehensive programme arrangements in place to provide operational oversight of the Bridgend commissioning arrangements. The current operational governance arrangements work well, with clear leadership and involvement from all relevant corporate functions. Agendas for meetings are well managed. However, operational, and clinical staff are not always involved in meetings, which means that clinical and operational issues and implications are being missed.
- 44 Arrangements for monitoring the contracts are sound, and regular information is provided to the operational groups to ensure scrutiny. Changes to any contracts are managed well, although there is scope to ensure that any impacts from service changes are appropriately assessed. A joint risk register is in place, which captures the risks appropriately. However, there is no clear process for escalation of these risks to the relevant health board risk register.
- 45 Although there has been recent progress in disaggregating services, the anticipated time to disaggregate all contracts was underestimated. As a result, there has been no clear disaggregation plan in place up until recently. The capacity of the commissioning teams has not been sufficient to enable effective programme management and, compounded with the impact of COVID-19, has affected the ability to disaggregate services at the expected rate. While a plan is now in place, the ability to disaggregate remaining contracts will be hindered without additional capacity. Opportunities to look more broadly at regional working may also be missed as a result.

## Review of the temporary closure of the Ysbyty Cwm Cynon Minor Injuries Unit

- 46 My work considered the issues surrounding the temporary closure of the Ysbyty Cwm Cynon Minor Injuries Unit (MIU) between September 2021 and May 2022. This is a service led by Emergency Nurse Practitioners (ENPs).
- 47 My work found that the MIU temporarily closed at short notice largely due to shortcomings in the managerial oversight arrangements of the MIU, which led to:
- the unit operating with staff whose competence to work autonomously had not been adequately assessed, despite concerns over staff training and supervision being raised as far back as 2018/19;
  - a fragile unit that was operating sub-optimally due a lack of investment in support staff to enable ENPs to manage workload demands efficiently;
  - staff not having up-to-date performance appraisals; however, this situation is not unique to the MIU.
- 48 We found that the temporary closure of the MIU led to reduced service options available to residents and increased the number of individuals attending the Emergency Department at Prince Charles Hospital (PCH), which was already operating under significant pressure.
- 49 The Health Board formally reported the decision to temporarily close the MIU to the Quality and Safety Committee. Although the Health Board determined that the risk of harm to patients of being seen at the Ysbyty Cwm Cynon MIU was minimal, that this was not formally reported to the Quality and Safety Committee, thus limiting opportunities to enable full scrutiny and provide assurance. Furthermore, we found that the Health Board has not assessed or reported on the impact on the patient experience, or the quality of the care provided to residents required to attend the Emergency Department at PCH following the closure of the MIU.
- 50 More positively, we found that the Health Board's arrangements for communicating the temporary closure to patients, the Quality and Safety Committee, and other key stakeholders as well as its arrangements for redeploying MIU staff were effective.

## Structured assessment

- 51 My 2022 structured assessment work took place at a time when NHS bodies were not only continuing to tackle the challenges presented by COVID-19 but were also seeking to recover and transform services to respond to the significant numbers of people who are waiting for treatment and improve population health.
- 52 My team focussed on the Health Board's corporate arrangements for ensuring that resources are used efficiently, effectively, and economically, with a specific focus on the organisation's governance arrangements; strategic planning arrangements; financial management arrangements; and arrangements for managing the workforce, digital assets, the estate, and other physical assets. Auditors also paid attention to progress made to address previous recommendations.

## Governance arrangements

- 53 My work considered the Health Board's governance arrangements, with a particular focus on:
- Board and committee effectiveness;
  - the extent to which organisational design support supports good governance; and
  - key systems of assurance.
- 54 My work found that **the Health Board's governance and leadership arrangements are improving, and organisational structures are being refreshed to support further improvements. However, the Health Board needs to further strengthen its systems of assurance to fully address the performance challenges facing the organisation.**
- 55 My work found that the Health Board's governance arrangements support the effective conduct of Board and committee business. The Board is committed to conducting its business in an open manner; however, opportunities exist to improve the Health Board's administrative arrangements for ensuring public transparency of Board business. The Health Board has a stable, skilled, and experienced cadre of Independent Members that provide a good balance of challenge and support. The Health Board has a stable committee structure, which is well embedded, and the papers prepared for Board and committee meetings provide sufficient detail to enable scrutiny and decision making. The Board demonstrates a good commitment to hearing from staff and patients, and has effective arrangements for self-review and improvement.
- 56 We found that the Health Board has taken positive steps to strengthen and stabilise its Executive Team as well as to ensure that Executive Directors have clear responsibilities and balanced and equitable portfolios of work. The Corporate Governance Team provides good support to the Board and its committees, despite not having a full complement of staff. The Health Board has made a number of positive changes to the role of the Director of Corporate Governance, which should allow the postholder to focus exclusively on the Health Board's governance arrangements. The Board has approved the creation of a new operating model with the aim of supporting post-pandemic recovery, improving service quality, streamlining management arrangements, and facilitating joint-working across the Health Board. Although the Board has maintained good oversight of the development and implementation of the new operating model, it will take time for the new structures to embed and deliver the intended benefits and improvements.
- 57 We found that the Health Board's risk management arrangements continue to evolve. The Health Board has made positive progress in developing a Board Assurance Framework, which it must now use to actively shape and inform Board and committee business. Although the Health Board has effective arrangements for reporting performance to the Board, its performance remains the worst in Wales in a number of areas which has led it to be escalated from routine arrangements to

enhanced monitoring for performance under Welsh Government's Escalation and Intervention Arrangements<sup>4</sup>. The Health Board, therefore, needs to ensure its performance management and reporting arrangements are appropriately focused on the key challenges it faces in both planned care and urgent and emergency care, especially where performance in those areas is comparatively worse than other Health Boards in Wales. The Health Board has appropriate arrangements for overseeing information governance at a committee-level, but some operational arrangements require improvement. The Health Board has taken a number of positive steps to improve its arrangements for tracking internal and external recommendations, but further enhancements are required.

## Strategic planning arrangements

- 58 My work considered the Health Board's strategic planning arrangements, with a particular focus on the organisation's:
- vision and strategic objectives;
  - Integrated Medium-term Plan;
  - planning arrangements; and
  - arrangements for implementing and monitoring the delivery of corporate strategies and plans.
- 59 My work found that **the Health Board's strategic planning arrangements continue to improve, and positive progress has been made in developing a clear long-term vision and strategy for the organisation. Preparing a Clinical Strategy and an approvable IMTP, and enhancing reporting arrangements, must remain key priorities for the Health Board.**
- 60 My work found that the Health Board has made good progress in developing its long-term strategy for the organisation, CTM 2030. The strategy provides a clear vision for the Health Board and sets out four strategic goals, which each have four clear priorities for action. The Board formally adopted the vision, strategic goals, and priorities in March 2022 following extensive engagement with staff, residents, partners, and other stakeholders. The Health Board is currently developing a Clinical Strategy for the organisation in the context of CTM 2030.
- 61 The Health Board has been unable to produce a financially balanced and Welsh Government approved Integrated Medium Term Plan for 2022-25 due to its challenging financial position. Instead, it produced an Annual Plan for 2022-23. As a result, the Health Board has been escalated from routine arrangements to enhanced monitoring for planning and finance under Welsh Government's Escalation and Intervention Arrangements.
- 62 We found that the Board has maintained effective oversight of the organisation's arrangements for developing corporate strategies and plans, particularly CTM

<sup>4</sup> There are four escalation levels: routine arrangements, enhanced monitoring, targeted intervention, and special measures.

2030. The Board has actively been involved in shaping the long-term vision, strategic goals, and priorities for CTM 2030 through workshops, development sessions, and regular discussions in public Board meetings. The Health Board also has a positive approach to stakeholder engagement. It has demonstrated strong engagement with a diverse range of the stakeholders in developing CTM 2030, using a range of approaches to engage residents, staff, and external partners.

- 63 Whilst CTM 2030 sets a clear direction of travel for the Health Board, we found that it currently lacks clear and measurable outcomes. The CTM 2030 Steering Group and Strategy Groups are currently developing outcomes for each strategic priority, setting out what success would look like, and identifying how to measure and report progress. However, there is scope to accelerate the pace of this work. The 2022-23 Annual Plan includes a range of different actions / deliverables, timescales, and measures, some of which relate to the strategic goals and priorities set out in CTM 2030. However, they not summarised or presented in a way that allows progress to be monitored and reported effectively on a quarterly basis, and there is lack of detail on which Executive Directors are responsible for ensuring delivery. The Health Board provides routine updates on the delivery of corporate strategies and plans to the Planning, Performance, and Finance Committee. However, the reports are very high-level in nature and do not provide sufficient information to enable full scrutiny, challenge, and assurance.

## Managing financial resources

- 64 My work considered the Health Board's arrangements for managing its financial resources, with a particular focus on the organisation's:
- arrangements for meeting key financial objectives;
  - financial controls; and
  - arrangements for reporting and monitoring financial performance.
- 65 My work found that **the Health Board has clear arrangements for financial planning, and its finances are well scrutinised. Whilst the Health Board met its financial duties for 2021-22, it faces several risks to achieving financial balance and sustainability in the short- and medium-term.**
- 66 At the end of 2021-22, the Health Board met both its financial duty to operate within its annual revenue resource limit and within its cumulative resource limit for the three-year rolling period 2019-20 to 2021-22. The Health Board also met its 2021-22 financial duty to break-even against its annual and three-year rolling capital resource limit. However, as it failed to meet its 2021-22 savings target by £11.1m, it started the 2022-23 financial year with an accumulated underlying deficit of £44.5m.
- 67 The Health Board's financial plan is clearly set out in the 2022-23 Annual Plan. The Health Board is seeking to manage its financial challenges by improving forecasts, identifying remedial actions, and delivering cost savings. However, these arrangements do not appear to be sufficiently robust. In Month 9 2022-23, the



Health Board was reporting a shortfall of £7.2m in recurrent savings, and overspends of £5.8m and £11m in Primary Care Prescribing and Planned Care Groups / Directorates respectively. At the time of my work the Health Board was not on course to meet all its financial duties in 2022-23. At month 9 2022-23, the Health Board reported a £21.3m year-to-date deficit against its core revenue plan, which was £1.4m worse than plan. However, the Health Board was forecasting that the core plan deficit would remain at £26.5m as per the core plan submitted to Welsh Government. The Health Board is on course to remain within its capital resource limit for 2022-23.

- 68 We found that the Health Board has adequate arrangements to ensure compliance with its with Standing Financial Instructions and Scheme of Reservation and Delegation. We did not identify any significant control weaknesses from our review of the Health Board's 2021-22 financial statements. However, as noted earlier in this report, we made fourteen recommendations for improvement, which included a need for the Health Board to seek timely approval for any senior officer appointment that would exceed the relevant pay band authorised by Welsh Government. The Audit and Risk Committee maintains effective oversight of the Health Board's arrangements and performance relating to single tender actions, special payments, losses, and counter-fraud. Whilst the Health Board's Financial Control Procedures are generally effective, we identified opportunities to strengthen controls further by setting a clear delegated upper financial limit for the Chief Executive, and ensuring there is a clear process in place for the Board to review and approve capital programmes and projects.
- 69 We found that the Health Board has effective arrangements for reporting financial performance to the Board and the Planning, Performance, and Finance Committee. Reports provide timely and good quality information, and contain a good mixture of text and exhibits to convey key messages. However, opportunities exist to enhance the reports by providing greater assurances that mitigating actions are in place to address key financial risks, and reporting on the performance of the new Care Groups. We have observed good scrutiny and challenge around the organisation's financial position at both Board and Planning, Performance, and Finance Committee meetings.

## **Managing the workforce, digital resources, the estate, and other physical assets**

- 70 My work considered the Health Board's arrangements for managing its wider resources, with a particular focus on the organisation's:
- arrangements for supporting staff wellbeing;
  - arrangements for managing its digital resources; and
  - arrangements for managing its estate and other physical assets.
- 71 My work found that **staff well-being remains a clear priority for the Health Board. However, capacity and funding challenges need to be addressed to**

**enable the Health Board to maximise the benefits of digital, and Board-level oversight of matters relating to the estate require strengthening.**

- 72 We found that the Health Board has effective arrangements for seeking staff views about their well-being needs and using staff feedback to shape its well-being offer. The Health Board routinely provides updates on its well-being activities and performance against workforce metrics to the People and Culture Committee. Whilst reports provide a good overview of activity, they do not provide sufficient assurance that well-being interventions are having a positive impact on staff well-being.
- 73 The Health Board's strategic digital intentions are clearly set out in its Digital Strategy, which it will review as part of its arrangements for developing the organisation's Clinical Strategy. However, there is limited capacity and capital funding within the Health Board to fully deliver the digital transformation agenda. Whilst these risks are appropriately reflected in the BAF, the Health Board should seek to set out in its refreshed Digital Strategy how it intends to overcome staffing and funding challenges to fully exploit the benefits offered by digital technologies and solutions.
- 74 The Health Board does not currently have an Estates Strategy, but is aiming to develop one during 2023. The Health Board's arrangements for ensuring appropriate Board-level oversight of the condition of the estate and other physical assets require strengthening. Whilst the Health Board's Capital and Estates Governance Board maintains operational oversight, it does not provide assurance reports to the Planning, Performance, and Finance Committee. The Health Board, therefore, needs to ensure there is regular reporting on estates-related performance indicators and risks to the Planning, Performance, and Finance Committee. It also needs to update the committee's Terms of Reference to reflect these responsibilities, and establish a clear process for ensuring appropriate cross-referral of issues with the Quality and Safety Committee, which oversees health and safety matters.

# Appendix 1

## Reports issued since my last annual audit report

### Exhibit 2: reports issued since my last annual audit report

The following table lists the reports issued to the Health Board in 2022.

Report	Date
<b>Financial audit reports</b>	
Audit of Financial Statements Report	June 2022
Opinion on the Financial Statements	June 2022
Audit of Financial Statements Report Addendum	August 2022
Charitable Funds (2020-21 Accounts)	January 2022
Charitable Funds (2021-22 Accounts)	January 2023
<b>Performance audit reports</b>	
Tackling the Planned Care Backlog in Wales	May 2022
Transformational Leadership Programme Board - Baseline Governance Review	May 2022
Commissioning and Contracting Arrangements Post Bridgend Boundary Change – Swansea Bay and Cwm Taf Morgannwg University Health Boards	November 2022

Report	Date
Review of the temporary closure of the Ysbyty Cwm Cynon Minor Injuries Unit	February 2023
Structured Assessment 2022	March 2023
Cwm Taf Morgannwg University Health Board – Tackling the Orthopaedic Services' Waiting List Backlog	March 2023
<b>Other</b>	
2022 Audit Plan	April 2022

My wider programme of national value for money studies in 2022 included reviews that focused on the NHS and pan-public-sector topics. These studies are typically funded through the Welsh Consolidated Fund and are presented to the Public Accounts Committee to support its scrutiny of public expenditure. Reports are available on the [Audit Wales website](#).

### Exhibit 3: performance audit work still underway

There are a number of performance audits that are still underway at the Health Board. These are shown in the following table, with the estimated dates for completion of the work.

Report	Estimated completion date
Unscheduled care – patient flow out of hospital	April 2023
Joint Review Follow up – Quality Governance	June 2023
Follow-up Review of Primary Care Services	June 2023
Unscheduled care – access to unscheduled care services	July 2023

# Appendix 2

## Audit fee

My 2022 Audit Plan set out my fee estimate of £416,770 (excluding VAT, which is not chargeable). I also set a fee estimate of £25,000 in the 2022 Audit Plan for my audit of the charitable funds' financial statements. I can confirm that there is a rebate of £12,996 in respect of the £416,770 relating to my audit of accounts work; and an additional charge of £1,832 in respect of my charitable funds audit work.

# Appendix 3

## Audit of accounts risks

### Exhibit 4: audit of accounts risks

My 2022 Audit Plan set out the risks for the audit of the Health Board's 2021-22 accounts. The table below lists these risks and sets out how they were addressed as part of the audit.

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>I will:</p> <ul style="list-style-type: none"> <li>• test the appropriateness of journal entries and other adjustments made in preparing the financial statements;</li> <li>• review accounting estimates for biases;</li> <li>• evaluate the rationale for any significant transactions outside the normal course of business; and</li> <li>• any additional procedures to address any specific risks of management override which are not addressed by the mandatory work above.</li> </ul>	<p>I reviewed numerous accounting estimates and a sample of transactions that included journal entries.</p> <p>I undertook an extended review of the Health Board's current liabilities. While my audit findings were materially satisfactory, I found an old and invalid liability of £815,212, which officers should have identified and corrected, prior to the audit. As reported at <b>Exhibit 1</b>, officers did not correct this misstatement.</p>
<p>Under the NHS Finance (Wales) Act 2014, health boards ceased to have annual resource limits with effect from 1 April 2014. Health boards instead moved to a rolling three-year</p>	<p>I will continue to monitor the Health Board's financial position for 2021-22 and the cumulative three-year position to 31 March 2022.</p> <p>This review will also consider the impact of</p>	<p>As set out in this report, my audit confirmed that the Health Board met its three-year resource allocations for both revenue and capital.</p>

Audit risk	Proposed audit response	Work done and outcome
<p>resource limit for both revenue and capital. The first three-year period ran to 31 March 2017.</p> <p>For 2021-22 and the three years to 31 March 2022, Health Board forecasts<sup>5</sup> to operate within its revenue and capital resource limits, subject to anticipated 2021-22 COVID-19 funding of £19.8 million from the Welsh Government. If the Health Board receives the anticipated funding, and maintains its forecast position, it would support an unqualified regularity opinion.</p> <p>Your current financial pressures do, however, increase the risk that management's judgements and estimates could be biased in an effort to achieve the financial duty.</p>	<p>any relevant uncorrected misstatements over the three years.</p> <p>If the Health Board fails to meet the three-year resource limits for revenue and/or capital, I would expect to qualify my regularity opinion on the 2021-22 financial statements. I would also expect to place a substantive report on the statements to explain the basis of the qualification and the circumstances under which it had arisen.</p>	
<p>The implementation of the 'scheme pays' initiative in respect of the NHS pension tax arrangements for</p>	<p>I will review the evidence one year on around the take-up of the scheme and the need for a provision, and the</p>	<p>As set out in this report, for 2021-22 the Health Board provided for an estimated liability and costs of £943,000 and, as</p>

<sup>5</sup> Based on the Month 11 year-end forecast, which the Health Board has reported to the Welsh Government.



Audit risk	Proposed audit response	Work done and outcome
<p>clinical staff is ongoing. Last year we included an 'emphasis of matter' paragraph in the audit opinion drawing attention to your disclosure of the contingent liability. Applications to the scheme will close on 31 March 2022, and if any expenditure is made in-year, I would consider it to be irregular as it contravenes the requirements of Managing Welsh Public Money.</p>	<p>consequential impact on the regularity opinion.</p>	<p>advised in the 2022 Audit Plan, I qualified my regularity opinion accordingly.</p>
<p>While COVID-19 restrictions are due to be removed in Wales on 28 March 2022, there have been ongoing pressures on staff resource and of remote working that may impact on the preparation, audit, and publication of the financial statements. There is a risk that the quality of the accounts and supporting working papers may be compromised, leading to an increased incidence of errors.</p>	<p>I will continue to discuss your closedown process and quality monitoring arrangements with the relevant officers.</p>	<p>I continued my discussions with officers and monitored the arrangements in place and I am pleased to report that no significant problems arose.</p>
<p>There continues to be increased funding streams and</p>	<p>I will identify the key issues and associated risks and plan my work</p>	<p>I reviewed transactions and balances relating to</p>

Audit risk	Proposed audit response	Work done and outcome
<p>expenditure in 2021-22 to deal with the COVID-19 pandemic. They could have a significant impact on the risks of material misstatement and the shape and approach to our audit. Examples of issues include: fraud, error, and regularity risks of additional spend; valuation (including obsolescence) of year-end inventory, including PPE; and the estimation of year-end annual leave balances.</p>	<p>to obtain the assurance needed for my audit.</p>	<p>COVID-19, and tested them where appropriate. My audit findings were satisfactory.</p>
<p>I audit some of the disclosures in the remuneration report to a far lower level of materiality, such as the remuneration of senior officers and independent members. The disclosures are therefore inherently more prone to material misstatement. In past audits I have identified material misstatements in the draft remuneration report submitted for my audit, which the Health Board had to correct. I therefore judge the 2021-2022 disclosures to be at risk of misstatement.</p>	<p>I will examine all entries in the remuneration report to verify that it is materially accurate, and that remuneration is at the appropriately approved levels.</p>	<p>I examined all entries and misstatements were corrected where necessary. I established that the Health Board had continued to remunerate some senior officers above the Welsh Government's pay bands and then, after the appointments, seek the Welsh Government's approval retrospectively. The Welsh Government raised its concerns with the Health Board in January 2022, and I again reported my concerns to the Health Board's Audit and Risk Committee in August 2022.</p>

Audit risk	Proposed audit response	Work done and outcome
<p>There is also the risk, as reported last year, that the Health Board remunerates senior officers above the Welsh Government's pay bands, but without the Welsh Government's formal approval to do so.</p>		
<p>I also audit the disclosure of related party transactions and balances to a far lower level of materiality. Last year I identified a number of material disclosures that had been omitted and had to be added.</p>	<p>I will verify that all the necessary signed declarations have been received, evaluated, and disclosed appropriately and accurately. My examinations also include other means of testing, such as my review of Companies House records using data analytics.</p>	<p>For 2021-22, a high number of corrections were again required, as result of my audit, which I reported to the Audit and Risk Committee in June and August 2022.</p>
<p>Between May 2020 and June 2021, I undertook a significant level of additional audit testing of the Health Board's old current-liabilities. As a result of this work, and as reported last year, the Health Board wrote-off and removed a material value of its old liabilities. The Health Board's remedial work has continued into 2021-22.</p>	<p>I will be reviewing the new accounting principles and processes adopted, analysing the age profile of the year-end current liabilities, and testing the balances disclosed as at 31 March 2022.</p>	<p>I continued my review of the Health Board's current liabilities. My audit findings were materially satisfactory.</p>



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We welcome correspondence and telephone calls in Welsh and English.  
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