

Audit of Accounts Report Addendum – Cwm Taf Morgannwg University Health Board

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Audit of accounts report addendum

Introduction

- 1 This report is an addendum to our Audit of Accounts Report that we presented to you on 9 June 2021. The report sets out the recommendations arising from our audit of the 2020-21 financial statements.
- 2 We would like to take this opportunity to once again thank all staff who helped us throughout the audit.

Recommendations from this year's audit

- 3 **Exhibits 1 to 9** set out three audit findings and recommendations, together with the management responses to each.

Exhibit 1: Matter arising 1

The Health Board has made good progress in the past year with its review and correction of the high level of old current liabilities

Findings	<p>We reported to you in June that during 2020-21 officers undertook considerable remedial work in respect of its old current-liabilities, and that we undertook significant additional audit testing. We did the additional testing at 31 August 2020 (Month 5) and 28 February 2021 (Month 11); and we tested the year-end position as usual. Our audit results and the validity of the liabilities improved as we progressed through our testing of the three month-ends.</p> <p>As reported to you by officers, the Health Board removed old current liabilities of some £19 million in respect of 2020-21.</p> <p>Officers' remedial work is ongoing in 2021-22, which includes their review of the Health Board's key processes and core principles for the accounting for accrued expenditure. This work remains critical to getting the Health Board onto a better footing for its 2021-22 financial reporting and beyond. Looking forward, it is essential that over time the Health Board does not get itself into a similar position again.</p>
Recommendation	<p>The recommendations that we made last year remain valid and relevant. The Health Board has made good progress against them, as mentioned at paragraph 4.</p>

The Health Board has made good progress in the past year with its review and correction of the high level of old current liabilities

	<p>Looking forward, the Health Board should conclude its current review of the core processes and principles in place, and identify and agree the key changes that are needed. The Health Board should look to conclude this work by no later than December 2021, in order to have sufficient lead time into the preparation of the 2021-22 financial statements.</p> <p>As your auditors we could be part of that process by providing timely audit commentary and audit advice.</p>
Accepted in full by management	Yes
Management response	<p>It is pleasing to note that there was good progress on its review of old current liabilities. There is now improved guidance in place and there have been a number of changes to the accrual process, which will further improve the robustness of reviewing current liabilities.</p> <p>The Health Board is happy to have continued discussion with Audit Wales to provide an overview of the enhanced processes prior to the preparation of the 2021/22 financial statements.</p>
Implementation date	December 2021

Exhibit 2: Matter arising 2

Several important audit issues arose regarding our audit of the remuneration report

Findings

We reported to you in June that our audit of the remuneration report had been far more time consuming and difficult this year, because a number of significant process and documentation issues arose. We stated that we would provide further commentary on the issues in this addendum report, which we set out below.

The appointment of the Interim Chief Operating Officer (COO)

The Health Board appointed an Interim COO with effect from 11 January 2021 at a salary of £150,000. The salary exceeded the Welsh Government's (WG) salary band for a health board COO, which for 2020-21 permitted a salary no higher than £143,625.

Any salary exceeding the WG's salary limit requires the Health Board to seek and obtain the WG's approval. Failure to do so results in a salary being irregular, which could adversely affect our regularity opinion on the financial statements.

We established that officers had not sought the WG's approval, and on 2 June 2021 the Health Board's Executive Director for People emailed the NHS Wales Chief Executive to request retrospective approval of the higher salary. The NHS Wales Chief Executive approved the request on the same day, stating that he would do so on this occasion.

Without the prompt reply and approval by the NHS Wales Chief Executive, our regularity opinion could have been qualified, or your consideration and approval of the audited financial statements could have been postponed beyond the Welsh Government's deadline.

The appointment of the Interim Director of Therapies and Health Sciences (DoTHS)

The Health Board appointed an Interim DoTHS with effect from 2 November 2020, at a salary of £131,470, with the appointee working on a 50/50 split across the Health Board and Cardiff and Vale University Health Board.

As part of our review, we established that the salary for the role, and key engagement with WG, took place in March and April 2021, some five months after the

Several important audit issues arose regarding our audit of the remuneration report

appointment. On 23 April 2021, WG determined the role's salary band to be £123,259 to £132,906. Despite our requests for information, we did not receive the key March and April communications until 2 June. As stated above, this item could also have affected the achievement of WG's deadline, and potentially the regularity opinion.

The retirement and return of the Director of Finance (DoF)

Under the provisions of the 1995 NHS Pension Scheme, the Health Board's DoF retired on 17 February 2021 and returned to the same role on 19 February.

We found the Health Board's documentation of the consideration of request for the retire-and-return to be limited. Late in the audit process, senior officers provided us with a retrospective note of the process that they had applied.

We also found that the Health Board had not paid the DoF for the period 19 February to 31 March 2021, because his salary had been entered as £nil in the payroll system. The Health Board had subsequently paid the outstanding amounts in April. The lack of documentation regarding the nature of the return may have contributed to the failure to pay the DoF.

Recommendation

The Health Board should review its governance and procedures in place for the appointment of senior officers, and as part of the review ensure that it fully understands the extent of WG's delegated authority to the Health Board, and importantly, the decisions that WG has not delegated.

The Health Board should ensure that minutes, particularly those of the Remuneration Committee, are clear. For example, minutes should make a clear distinction between when the Remuneration Committee has approved (or rejected) a business case; and when it has endorsed (or not endorsed) a business case that then needs the approval of the WG.

In respect of retire and return cases, the Health Board should ensure that it has appropriate procedures in place for the consideration and approval/ rejection of business cases. The Health Board should record the process

Several important audit issues arose regarding our audit of the remuneration report

	contemporaneously and provide accurate information to the payroll department.
Accepted in full by management	Yes
Management response	There is a context to the DoTHS delay, for example, which is that the situation was novel, and required Welsh Government banding for a new joint role, which took some time.
Implementation date	Immediate

Exhibit 3: Matter arising 3

The Health Board's related party disclosures were materially incomplete	
Findings	<p>We identified five material audit amendments that were required to add related party disclosures that had been omitted. Four related to the Health Board and one to the Welsh Health Specialised Services Committee. We established that signed declarations had been either:</p> <ul style="list-style-type: none">• overlooked and omitted by the finance team; or• disclosed in the financial statements, but with the relevant transactions and balances omitted.
Recommendation	<p>The Health Board should ensure that all relevant declarations are fully disclosed in the financial statements; and that in doing so officers make robust enquiries of the financial ledger to ensure that all transactions and balances are captured.</p>
Accepted in full by management	<p>Yes</p>
Management response	<p>Discussions will take place with the relevant offices to ensure that all declarations are fully disclosed and robust enquiries of the financial ledger take place.</p>
Implementation date	<p>April 2022</p>

Exhibit 4: Matter arising 4

Some of the information submitted for audit was incomplete or inaccurate	
Findings	<p>Each year we agree an 'Audit Deliverables' document with officers, which sets out our respective commitments and the associated delivery dates. Meeting all the commitments in the document is important to the efficiency and timeliness of the audit.</p> <p>We found that some of the documentation submitted for audit was incomplete or inaccurate and did not support the figures in the draft financial statements. These shortcomings led to the need for extended audit time, and more time of management and finance staff.</p> <p>The main problem areas were the:</p> <ul style="list-style-type: none">• primary care accruals; and• the analysis of continuing healthcare accruals.
Recommendation	<p>The Health Board should ensure that working papers provided at the start of the audit are as described in the deliverables document and have clear cross-referencing to the relevant figures in the financial statements.</p> <p>Also, where spreadsheets are the underlying form of evidence, the Health Board should ensure that all cell values have an appropriate audit trail and that they are never manually input.</p>
Accepted in full by management	Yes
Management response	The required working papers will be communicated with the relevant finance officers and a request that these are prepared and available in readiness for Audit review.
Implementation date	April 2022

Exhibit 5: Matter arising 5

Management undertook a late review of their draft financial statements and made a number of amendments after the statements had been submitted for audit and to the Welsh Government	
Findings	The Health Board provided us with its draft financial statements by the Welsh Government's deadline of 30 April. However, on 14 May management emailed us with four significant amendments to the draft financial statements. We understand that the post-submission amendments had arisen due to management's review of the financial statements being late.
Recommendation	The Health Board should ensure that management reviews the draft financial statements, and makes all corrections necessary to the statements, before submitting them to us and the Welsh Government on the stipulated date.
Accepted in full by management	Yes
Management response	<p>Timescales for preparation of the accounts are very challenging, the consolidation of the WHSSC accounts provides a further challenge that is not the case for other HBs. There were also a number of late adjustments to the draft accounts from WG and shared services which impacted on the timescales for 2020/21.</p> <p>During 2020/21 there was also unforeseen sickness in the financial accounts team and there was a new appointment at a senior level within the team.</p> <p>Given this processes and timetables will be reviewed and updated to build in time for sufficient review by Senior Management before the draft accounts are submitted.</p>
Implementation date	April 2022

Exhibit 6: Matter arising 6

The Health Board holds numerous fixed assets with a nil carrying value	
Findings	<p>We established that there were 1,878 assets on the fixed asset register as at 31 March 2021, which had a £nil carrying value (or net book value).</p> <p>The assets may no longer be in existence/operational use, or they may still be operational and have a longer asset-life than originally estimated by management.</p> <p>There was no evidence that management had undertaken a review of the status of such assets to ensure that they are appropriately accounted for in the fixed asset register and financial statements.</p>
Recommendation	<p>The Health Board should review all its fixed assets with a £nil carrying value, and take action where necessary, to ensure that the fixed asset register is accurate. Where relevant and appropriate, this could include revisiting the estimated useful lives of certain assets.</p>
Accepted in full by management	<p>Yes – see response</p>
Management response	<p>This is noted and the capital team do undertake regular reviews of assets with a 0 life to confirm they remain in use. It is usual for organisations to utilise assets after the manufacturer recommended life. However, a review of equipment assets will be carried out in the 21/22 financial year to ensure that the most up to date classifications and standard lives are being selected at acquisition.</p>
Implementation date	<p>Immediate</p>

Exhibit 7: Matter arising 7

One of the Health Board's financial returns contained a large error	
Findings	<p>We identified that one of the year-end financial returns to the Welsh Government included an incorrect figure of £114.7 million, in respect of the balance held with the Welsh Risk Pool for expenses recognised by the Health Board but not yet claimed from the Pool.</p> <p>The figure should only include the amounts defrayed (ie, paid) by the Health Board but not yet received, which was £29.9 million.</p> <p>We found the same error last year, which we had reported to officers informally. Given that the error has been repeated, we are reporting it formally this year.</p>
Recommendation	<p>The Health Board should ensure that where required by Welsh Government, its financial returns are based on defrayed expenditure.</p>
Accepted in full by management	<p>Yes – however balances are agreed</p>
Management response	<p>While the error looks significant, the initial figure included does relate to a balance held within the Welsh Risk Pool. It is recognised that the value should be the amounts defrayed therefore working papers and process will be updated to ensure this is included in 2021/22.</p>
Implementation date	<p>April 2022</p>

Exhibit 8: Matter arising 8

The Real Asset Management (RAM) IT system is not part of regular disaster recovery testing, or test restores from backups	
Findings	The Health Board does not specifically and regularly test its RAM system backups, and recovery from them. The Health Board therefore has an increased risk that, should there be a RAM system loss, it would be unable to recover the system and its information. Such a loss could arise through system failure or cyber-attack.
Recommendation	The Health Board should perform a restore of the RAM system from backups to confirm that the process works as expected and thereby provide assurance that the system could be recovered in the event of system loss or failure. The Health Board should carry out such testing regularly.
Accepted in full by management	Yes
Management response	The Capital team will link with the relevant lead in the ICT team to confirm the programme of backups for the RAM system and agree a process and timeframe for checking and testing the backups have recorded properly. This will be actioned early in 21/22 and an agreed programme and process developed moving forward.
Implementation date	Immediate

Exhibit 9: Matter arising 9

The Health Board should strengthen the IT controls in relation to the Health Roster system	
Findings	<p>With regard to the Health Board's Health Roster system we identified that:</p> <ul style="list-style-type: none">• Many users have super user access rights that allows them to create/amend user access to the system. This increases the risk of system misuse.• The minimum password length for system-user access is only six characters. This requirement is below the length recommended by good practice. Having strong password requirements would reduce the risk of inappropriate system access.
Recommendation	<p>The Health Board should only allocate superuser access to Health Roster system for users who require it; and remove such access from those who do not require it. The Health Board should also review the minimum user-password length and complexity for the Health Roster system, in line with good practice.</p>
Accepted in full by management	Yes
Management response	The Health Roster team will link with the relevant lead in the ICT team to take forward the recommendations.
Implementation date	December 2021

Recommendations from last year's audit

- 4 We raised two recommendations last year, one of which the Health Board's management accepted, and one that they partially accepted. We can confirm that the Health Board has made good progress on both recommendations.
- 5 The accepted recommendation relates to the Health Board's old current-liabilities, which we cover at **Exhibit 1**.
- 6 Our second recommendation related to entries in the fixed asset register were inadequate because they were far too generic and therefore not meaningful. the Health Board has improved its records, and its improvements are ongoing into 2021-22. We will continue to review this area as part of our annual audit.



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