

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

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Contents

Audit of Accounts Report Addendum

Introduction	4
Recommendations from this year's audit	4
Recommendations from last year's audit	20

Audit of accounts report addendum

Introduction

- 1 This report is an addendum to the Audit of Accounts Report that we presented to The Audit and Risk Committee on 14 June 2022. It sets out the recommendations arising from our audit of the 2021-22 financial statements; and provides an update on the progress you have made against the last year's recommendations.

Recommendations from this year's audit

- 2 **Exhibits 1 to 14** set out this year's audit findings and recommendations, together with the management responses to each of them.

Exhibit 1

Matter arising 1 – failures to seek timely Welsh Government approval to exceed its established senior-officer pay bands

Findings

Last year we reported on a case where the Health Board had not sought the Welsh Government's approval of a senior officer's salary. The salary had exceeded the Welsh Government's relevant pay limit. As a result of our audit finding and the risk to our regularity opinion, the Health Board was required to seek Welsh Government approval retrospectively, which it was granted.

We recommended last year that *'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.'*

This year we noted three cases where the Health Board took decisions to appoint and pay senior officers at unauthorised pay levels, and then seek Welsh Government approval many months later.

On 10 January 2022 the Health Board's Chief Executive wrote to the Chief Executive NHS Wales, requesting approval of the three cases, which dated back to February 2021 (almost one year back), June 2021 and August 2021.

The Chief Executive of NHS Wales replied on 21 January to approve the salaries retrospectively. She closed her reply by saying: *'I would like to draw your*

Matter arising 1 – failures to seek timely Welsh Government approval to exceed its established senior-officer pay bands

	<p><i>attention to the letter issued by Andrew Goodall last June 'Governance in Recruitment' which I have attached, and that any requests for a higher salary should be considered by Welsh Government during the appointment process not afterwards. Please also be aware that any changes to the substantive roles prior to starting the recruitment process should be submitted to the Welsh Government for re-evaluation if necessary. The positions should then be advertised at the bottom of the substantive pay band, and following the appointment process.'</i></p> <p>As a general audit observation, we note that on such cases officers typically ask Members of the Health Board's Remuneration Committee to <u>approve</u> a proposed salary. However, those Members are only able to <u>endorse</u> a proposal, which ultimately needs Welsh Government approval.</p>
Recommendation	The Health Board must seek Welsh Government approval on a timely basis, for any senior officer appointment that would exceed the relevant pay band that is authorised by the Welsh Government.
Accepted in full by management	Recommendation accepted in full.
Management response	While the Health Board accepts the recommendation in full, however the framing of the matter does not take account of the complexity of the issues and contact with Welsh Government.
Implementation date	September 2022

Exhibit 2

Matter arising 2 – material adjustments required to the related party disclosures	
Findings	<p>Last year we reported on five material omissions in respect of the related party disclosures within the financial statements, and we recommended that the Health Board ensures that all relevant declarations are fully disclosed; and that officers make thorough checks to the financial ledger to ensure that all transactions and balances are identified.</p> <p>This year we again found a high number of amendments, the details of which we reported to the Audit and Risk Committee in June.</p>
Recommendation	<p>The Health Board should ensure that its related-party process is fully and properly applied to support the preparation of the 2022-23 financial statements.</p>
Accepted in full by management	<p>Yes</p>
Management response	<p>This was largely due to a transposition error between the reviewed working paper and the final document. We will ensure checks are made in future accounts.</p>
Implementation date	<p>April 2023</p>

Exhibit 3

Matter arising 3 – Welsh Risk Pool cases that are long overdue	
Findings	<p>In December 2020 the NHS Wales Shared Services Partnership raised concerns with the Health Board in respect of its Welsh Risk Pool (WRP) debtor/creditor balance. The balance due to the Health Board, at that time, was some £33 million, subject to long overdue cases that the Health Board was required to submit.</p> <p>While the Health Board has made progress with its WRP cases since 2020, we noted that it still has claims totalling £15.8 that are overdue.</p> <p>The following statement was added to the Health Board’s 2021-22 financial statements, within the ‘Contingent liabilities’ note (Note 21):</p> <p><i>As part of the reimbursement process for claims, the Health Board is required to submit an adequate Learning from Events Report (LfER) within 60 working days to the Welsh Risk Pool (WRP). Where the information requested has not been provided within six calendar months, the WRP Committee may strike out a claim and permanently defer reimbursement. At present the Health Board has a significant number of LfERs which are over 6 months overdue and these have been referred to the WRP Committee meeting scheduled for 20th July 2022. The total value of these claims is circa £15.8million and £2.1million has been paid out to date. The Health Board is continuing to work with the WRP to reduce the number of outstanding LFERs prior to the Committee meeting, in order to alleviate the risk of permanent deferral. At this stage the Health Board is unable to place a reliable estimate on the possible penalty charge that may be imposed at the WRP Committee meeting on 20 July 2022. No provision has therefore been made in the 2021/22 Annual Accounts for any possible penalty charges.</i></p>
Recommendation	<p>The Health Board should process all late cases, that currently exist, as a matter of priority.</p> <p>And the Health should review its arrangements and capacity and ensure that going forward they are able to process all claims in accordance with its working</p>

Matter arising 3 – Welsh Risk Pool cases that are long overdue

	agreement with the NHS Wales Shared Services Partnership.
Accepted in full by management	Yes
Management response	Work is ongoing to improve the timeliness of the process, and a report has been taken to Audit & Risk Committee outlining the steps being undertaken.
Implementation date	Immediate

Exhibit 4

Matter arising 4 – a large manual accounting adjustment that was outside the financial ledger	
Findings	We found that the financial ledger did not agree to the draft financial statements submitted for audit, because finance officers had processed a manual adjustment of £6.181 million that sat outside the ledger. Officers did not inform us of this adjustment prior to our audit.
Recommendation	The Health Board should avoid making any manual adjustment to the accounting records to support the draft financial statements. All accounting adjustments should be processed through the financial ledger.
Accepted in full by management	Yes
Management response	This was a one-off late adjustment (day before draft submission), that was realised at time of review of the accounts, therefore there was no time to put through the ledger before submission. As soon as the query on the TB was raised by Audit Wales, an explanation was provided immediately. The adjustments were subsequently made on the ledger.
Implementation date	N/A - Completed

Exhibit 5

Matter arising 5 – the working papers for primary care expenditure were incomplete and 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 the working papers to support the Primary Care figures were incomplete or inaccurate and did not support the figures in the draft financial statements.</p> <p>These shortcomings led to the need for extended audit time, and more time of management and finance staff.</p>
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	<p>A change in process for the completion of audit working papers caused a delay and a member of the finance team who left at the end of the financial year also caused some issues with submitting working papers.</p> <p>We will ensure that audit deliverables are clearly communicated and deadlines for submission kept.</p>
Implementation date	April 2023

Exhibit 6

Matter arising 6 – the Health Board’s Financial Returns were incomplete and did not agree to the financial statements	
Findings	The Health Board provided us with its draft financial returns by the Welsh Government’s deadline of 29 April. However, our review of the returns identified that part of the LFR101-105 return was missing, which we subsequently received on 10 May. These returns identified differences to the figures in the financial statements which required amendments to the financial statement.
Recommendation	The Health Board should ensure that all financial returns are made available by the Welsh Government deadlines and that the figures in the financial statements agree to those returns.
Accepted in full by management	Yes
Management response	This was an oversight on the return. We will ensure checks are made that all returns are fully completed.
Implementation date	April 2023

Exhibit 7

Matter arising 7 – lack of contract of employment	
Findings	The Health Board extended the Interim Executive Medical Director's appointment by three months to the end of June 2022. At the time of our audit we established that a formal contract extension was not in place. We will re-examine this appointment as part of our audit of the 2022-23 remuneration report.
Recommendation	The Health Board should put the relevant employment contracts in place when an interim role is extended.
Accepted in full by management	Recommendation not accepted.
Management response	The Health Board does not issue Written Statements of Particulars to internal secondees in interim posts.
Implementation date	N/A

Exhibit 8

Matter arising 8 – lack of detailed instructions to the valuers	
Findings	We found that the Health Board does not provide a formal instruction to its external valuers, the Valuation Office Agency. A formal instruction is an important communication that conveys a clear understanding of the Health Board's valuation requirements, so that its valuer understands, agrees, and adheres to them.
Recommendation	Prior to a valuation being undertaken, the Health Board should issue and agree a formal instruction to its valuers.
Accepted in full by management	Yes
Management response	We will agree specifics with the valuers to include location, Gross Internal Area (GIA) and specification of the work.
Implementation date	September 2022

Exhibit 9

Matter arising 9 – the disclosure of an invalid old liability	
Findings	<p>In the past two years we have undertaken significant extended testing of the Health Board's aged current-liabilities, with some £20 million being removed from the annual financial statements. We have retained this area as a key, albeit reducing, audit risk.</p> <p>While this year's audit testing went well, we did identify an old and invalid liability of £815,212, relating to primary care costs being incorrectly recognised as due to general practitioners.</p> <p>The error was easily identifiable, which we would have expected finance officers to have picked up and removed prior to the audit.</p>
Recommendation	<p>The Health Board should review why this error arose and determine whether any of its controls need to be strengthened.</p>
Accepted in full by management	<p>Yes</p>
Management response	<p>This was a one off error and has been corrected in the 2022/23 ledger. Regular balance sheet reviews take place throughout the financial year.</p>
Implementation date	<p>N/A - Completed</p>

Exhibit 10

Matter arising 10 – the Health Board’s working papers contain hard coded figures	
Findings	We found a number of Excel-based working papers that included hardcoded (numbers manually entered) figures, which made it difficult and time consuming to identify the origin of the figures and their relevance to the area of the financial statements being audited. Examples of such areas were the remuneration report and primary care accruals.
Recommendation	Wherever possible, the Health Board should ensure that all Excel-based working papers include formulae and cell references which will provide a clearer audit trail.
Accepted in full by management	Yes
Management response	We encourage where possible to link working papers to source documentation and not hard code. We will reinforce this for the accounts in 2022/23.
Implementation date	April 2023

Exhibit 11

Matter arising 11 – the Health Board should update its Medical Pay Financial Control Procedure	
Findings	We found that the Health Board's Medical Pay Financial Control Procedure was past its review date of Nov-2021 and requires updating.
Recommendation	The Health Board should update its Medical Pay Financial Control Procedure to reflect the current process.
Accepted in full by management	Yes
Management response	This is being updated in line with other FCPs, it will go to Audit & Risk Committee for approval.
Implementation date	October 2022

Exhibit 12

Matter arising 12 – the Health Board’s continuing healthcare rates are not being applied by service providers	
Findings	We found that continuing healthcare providers are not applying the uplifted rates when invoicing the Health Board, despite letters being issued. This oversight is resulting in old liabilities not being cleared.
Recommendation	The Health Board should be more proactive with its correspondence with service providers to ensure that its liabilities are properly discharged.
Accepted in full by management	Agreed
Management response	We continue to communicate with our providers the agreed uplifts, however the invoicing is out of our control.
Implementation date	N/A

Exhibit 13**Matter arising 13 - the recording of annual leave on the Health Board's ESR system presented difficulties in testing the annual leave accrual**

Findings	With regard to the Health Board's annual leave accrual (employees' leaves balances at the financial year-end), we found that the ESR system did not always record the correct position, as employees and their line managers had not updated the system. For instance, where annual leave has been taken but not booked, or potentially vice versa.
Recommendation	The Health Board should remind staff of the importance to use the leave system accurately and to process their leave requests in a timely manner.
Accepted in full by management	Agreed
Management response	We continue to communicate with Workforce on the importance and requirement for up to date, reliable data on the ESR system
Implementation date	N/A - continuous

Exhibit 14

Matter arising 14 – weaknesses in access rights to the Wellsky system	
Findings	<p>With regard to the Health Board’s Wellsky system, we identified that:</p> <ul style="list-style-type: none"> • Many users have administrative user access rights that allows them to create/amend user access to the system, increasing the risk of system misuse; and • since Wellsky has been implemented, the system administrator has reviewed the user access levels only once in order to check that the levels of user access remain appropriate.
Recommendation	<p>The Health Board should only allocate administrative access to the Wellsky system for users who require it; and remove all unnecessary access.</p> <p>The Health Board should also regularly review (at least annually, but more if they deem necessary) all access rights to check that they are still appropriate.</p>
Accepted in full by management	Yes
Management response	We will liaise with the administrators of the Wellsky system to ensure there are appropriate reviews and access to the system.
Implementation date	September 2022

Recommendations from last year's audit

- 3 **Exhibit 15** sets out last year's recommendations along with our comments on the progress officers have made implementing them.

Exhibit 15: progress against last year's recommendations

Audit Year	Recommendation	Progress
2019-20	The Health Board has made good progress in the past year with its review and correction of the high level of old current liabilities. 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. As your auditors we could be part of that process by providing timely audit commentary and audit advice.	The Health Board has continued to closely monitor the position with old liabilities and has established review processes and time-lines for writing them off. We are content that this recommendation has been addressed.
2020-21	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 contemporaneously and provide accurate information to the payroll department.	While the Health Board has made progress in some of these areas, this year's audit and the Welsh Government's correspondence (see Exhibit 1) highlight that there are still significant weaknesses that need to be addressed.

	<p>The Health Board should ensure that all relevant related party 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>	<p>We have again identified (see Exhibit 2) omissions and errors in identifying, assessing and disclosing related party transactions, some of which were material.</p>
2020/21	<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. 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>	<p>While there have been some improvements there is one area of the accounts which has fallen short again. This relates to the primary care working papers (see Exhibits 4 and 9). We received the working papers late, and they contained errors that required many meetings and discussions with officers to resolve.</p>
2020-21	<p>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.</p>	<p>The Health Board has made progress in this area, although we experienced some similar problems this year (see Exhibits 3, 4 and 5).</p>
2020-21	<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>	<p>The Health Board has made progress in this area and we have seen a reduction in the number and value of such assets. However, there remains a significant number of assets that are held at nil net</p>

		book value, which the Health Board should continue to review and make adjustments as needed.
2020/21	The Health Board should ensure that where required by Welsh Government, its financial returns are based on defrayed expenditure.	This issue has now been resolved with no error this year. We are satisfied that the Health Board has addressed this recommendation.
2020-21	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.	The Health Board has not yet addressed this recommendation.
2020-21	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.	The Health Board undertook a review of the number of users requiring access to this system resulting in some officers being removed from the superuser profile. The Health Board is content that the remaining super users are required and relevant. We are content that the recommendation has been addressed.



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