

Financial Reporting and Monitoring Final Internal Audit Report

May 2022

Swansea Bay University Health Board



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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.

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Executive Summary

Purpose

To review arrangements in place for reporting on financial performance to support the achievement of targets and improvements

Overview

We have issued reasonable assurance on this area.

The matters requiring management attention include:

- Content of delegation letters does not fully align with standing orders and letters were not returned by budget holders
- Significant budgets within the health board are not being acknowledged with delegation letters
- A listing of virements is not maintained
- Budget holder feedback has identified that additional finance support might be required

Further matters arising have also been noted (see Appendix A).

Report Classification

		Trend
Reasonable	Some matters require management attention in control design or compliance.	N/A



Assurance summary¹

Assurance objectives	Assurance
1 Establishments of Budgets	Limited
2 Policies and Procedures	Reasonable
3 Authorised Signatories Listing	Reasonable
4 Authorisation of Virements	Limited
5 Governance, oversight and scrutiny	Reasonable

Key matters arising

	Assurance Objectives	Control Design or Operation	Recommendation Priority
1 Delegation letters content and acknowledgement	1	Operation	High
2 Delegation letter recipients	1	Design	Medium
4 Budget holder feedback	2	Operation	Medium
7 Absence of virements listing	4	Design	High

¹ The objectives and associated assurance ratings are not necessarily given equal weighting when formulating the overall audit opinion.

1. Introduction

- 1.1 The NHS Finance (Wales) Act 2014 requires NHS Wales organisations to prepare an Integrated Medium-Term Plan (IMTP) setting out the service, workforce and financial plans and forms the basis of the budget for the year. Financial breakeven position must be achieved on a three-year rolling basis.
- 1.2 The health board has not been able to achieve financial balance in recent years and during 2019/20 the Welsh Government commissioned KPMG to provide financial planning and support to the health board.
- 1.3 The health board's Annual Plan establishes a high level in year budget which aligns with the Welsh Government resource allocation. The initial plan for 2021/22 anticipated a revenue outturn of £42.077m deficit. Welsh Government has since informed the health board of non-recurrent funding of £17.672m to support the non-delivery of savings as a result of Covid-19. The health board's month 6 financial report forecasted a deficit at year end of £24.405m.
- 1.4 Budgetary control and financial reporting are key to being able to manage the challenges facing the health board, including changing and increasing demand for services, workforce and inflationary pressures, along with the continuing impact of the Covid-19 pandemic.
- 1.5 The key risks considered in this review are:
 - i. non-compliance with the health board's budgetary control policies, procedures and scheme of delegation;
 - ii. failure to deliver the financial plan and deliver services within allocated resources.
- 1.6 The following limitation of scope was noted during the review:
 - The health board does not maintain a virements listing that identifies transfers between Service Groups. As such we were unable to undertake sample testing of virements to confirm compliance with expected processes.

2. Detailed Audit Findings

Audit objective 1: The establishment of budgets in line with the current annual plan.

- 2.1 The Annual Plan was approved by the Board in June 2021 which outlined a forecast deficit of £42.077m. Further non-recurrent funding was confirmed by Welsh Government which reduced the forecast deficit to £24.4m.
- 2.2 This was agreed to the detailed budget plan which was presented to Management Board on May 5th, 2021. This established the baseline budget for all Service Groups and Corporate Directorates. As a result of the KPMG review undertaken in 2019/20, from 2020/21 onwards budgets were rebased to the 2019/20

expenditure profile as opposed to rolling over historical budgets as in previous years.

- 2.3 As part of our review, the baseline budgets were agreed to the rolled forward Oracle balance position and the Service Group baseline budgets were also agreed to delegation letters. We note that adjustments in year are reflected in the live Oracle budget and so direct agreement of the plan to the ledger was not possible.
- 2.4 In order to establish the arrangements for budgetary delegation, Standing Order 6 (Standing Financial Instruction) was reviewed.

'5.2. Budgetary Delegation

5.2.1 The Chief Executive may delegate, via the Director of Finance, the management of a budget to permit the performance of a defined range of activities, including pooled budget arrangements under Regulations made in accordance with section 33 of the National Health Service (Wales) Act 2006 (c. 42). This delegation must be in writing, in the form of a letter of accountability, and be accompanied by a clear definition of:

- a) The amount of the budget;*
- b) The purpose(s) of each budget heading;*
- c) Individual or committee responsibilities;*
- d) Arrangements during periods of absence;*
- e) Authority to exercise virement;*
- f) Achievement of planned levels of service; and*
- g) The provision of regular reports.*

The budget holder must sign the accountability letter formally delegating the budget.'

- 2.5 Within these procedures, the budget holder is defined as the 'top layer' of budgetary delegation and so the above refers to Service Group Directors only. As such, four delegation letters were issued to Directors for 2021/22 and these were shared with us in order to undertake our review. We note that of the four letters issued to Service Groups, the corporate finance team did not receive any responses. **See Matter Arising 1 in Appendix A**
- 2.6 Budgets are further delegated within Service Groups to Deputy Directors, Heads of Service, senior managers etc. This is on an informal basis and is in line with arrangements at other health boards. There are currently circa 450 budget holders within the health board.
- 2.7 A review of the annual budget allocations for 2021/22 has shown significant budgets are allocated to corporate delegates but no delegation letters are currently issued to them. As part of this review, we liaised with colleagues at other health boards to establish how delegation letters are issued. Letters are typically issued at Service Group level along with corporate delegates. One health board also issues to Deputy Directors, Heads of Service and senior managers within

Service Groups, dependant on the value of the budget and significance of the service. **See Matter Arising 2 in Appendix A**

Conclusion:

2.8 The arrangements for budget establishment and delegation have been documented and we note that issue of delegation letters is limited to Service Groups and responses were not received from budget holders. A **Limited** assurance rating is determined for this objective.

Audit objective 2: Policies and procedures are available to staff, are up to date and reflect current working practices.

- 2.9 The health board's standing orders (SO) and financial control procedures (FCP) establish a broad range of finance processes and these are available on the health board's intranet and within the Oracle dashboard. The three key documents examined as part of this review were: *SO 1 - Scheme of Reservation and Delegation*, *SO 6 - Standing Financial Instructions* and *FCP 6 - Budgetary Control Procedures* (BCPs). Both Standing Orders were reviewed in the last 6 months however we note that the Budgetary Control Procedures have not been updated since 2019. A paper taken to Audit Committee in November indicates review of these procedures was planned for quarter 4. **See Matter Arising 3 in Appendix A**
- 2.10 As part of the review, we undertook a comparison of BCPs across three other health boards and noted similarities. We also acknowledge that a national review of the BCP template is being undertaken and significant changes are not currently required.
- 2.11 For 2021/22, a Performance Management Framework was developed which provides budget holders with a comprehensive overview of the performance management arrangements that they are required to participate in and reminds them of their responsibilities as budget holders.
- 2.12 A sample of 20 budget holders were contacted to establish their satisfaction on the level of support they currently receive from their local finance colleagues. We received six responses (30% response rate) and the key themes identified were:
- three advised that they are satisfied with the support they receive;
 - two noted that they would appreciate more regular/scheduled meetings;
 - two advised that initial/top-up training would be welcomed; and
 - one explained that they did not know who their FBP was since the transfer of the therapies service to Morriston.
- 2.13 These themes are consistent with some of those identified within the KPMG budget holder survey issued in January 2020. However, we recognise they may not be reflective of the whole population due to the low response rate. **See Matter Arising 4 in Appendix A**

Conclusion:

2.14 Key policies were reviewed which has determined that the BCPs are currently under review. As such a **Reasonable** assurance rating is determined.

Audit objective 3: An authorised signatory list is maintained identifying the individuals permitted to approve expenditure against each cost centre and their financial limit.

2.15 We were provided with the authorised signatory listings relating to the Oracle system and for manual non-pay transactions. These are maintained by the central finance team. We were advised that the team relies on the Service Groups to notify of any changes to authorised signatories. These are generally actioned via the local finance teams, but where a change relates to a Board member these would need to be actioned through the central finance team.

2.16 A form is required for each new addition and/or amendment in order for it to be actioned on the system. A sample of 10 amendments made to the Oracle signatories listing were tested to ensure the appropriate forms were provided prior to amendment on the system. No issues were identified.

2.17 The finance team undertake monthly checks between the Oracle signatory listing and the ESR Staff in post list, to ensure leavers are removed from the approval hierarchy. We were provided with the most recent check which identified eight leavers included within the Oracle listing and confirmed that these are no longer included in the system.

2.18 The Oracle signatory listing is also compared to the manual non-pay signatory list. This highlights where a manual approval limit does not reconcile to an Oracle limit, which is not uncommon, and is followed up with Service Group colleagues as appropriate.

2.19 We note that the manual non-pay listing contains circa 280 authorisers that are able to approve invoices without a purchase order. Approval limits range from £250 to £500,000. We recommend a wider review of this listing is undertaken, to assess the need for this number of authorisers given the NHS Wales 'No PO, No Pay' policy. **See matter Arising 5 at Appendix A**

2.20 In addition, Service Group finance teams undertake periodic reviews of the requisition and approval hierarchy within Oracle, and we were provided with evidence to support these exercises. However, the frequency and formality vary between Service Groups. We note that arrangements at other health boards include annual confirmation checks where the signatories listing is circulated to each Service Group for confirmation that staff are still in post and that limits and cost centres are appropriate. **See Matter Arising 6 at Appendix A**

2.21 We compared the health board's signatory listing to those in place at a sample of other NHS Wales bodies. We noted the signatory listing at some bodies extend to include coverage over transactions such as payroll and staff expenses. Further investigation established that these were in place where manual paper-based

processes operate. This is not the case for the health board, which is consistent with other health boards in this regard.

Conclusion:

2.22 Authorised signatory listings are maintained in relation to the Oracle system as well as for manual non-pay transactions. Monthly checks are undertaken against ESR records to ensure leavers are removed from the approval hierarchy. Periodic checks are also undertaken at a Service Group level, although the frequency and formality vary. A **Reasonable** assurance rating is determined.

Audit objective 4: Budget virements are appropriately authorised and processed.

2.23 Service Group Directors are considered accountable for their budget and the provision of services and have delegated responsibility to deploy the resources as they deem appropriate. The process for budget virements is set out in the health board's BCPs.

2.24 Within the health board, individual Service Group budgets are generally not ring-fenced (there are some exceptions: Learning Disabilities, CHC etc.) but certain conditions need to be met for the virement of funds within Service Groups / Corporate Directorates.

2.25 Budget virements between Service Groups normally reflect changes in service management responsibilities or allocation/attribution of expenditure. All virements between Service Groups are processed via the central reserve and require independent review and approval from the corporate finance team. This provides an additional level of control to ensure transfers between Service Groups are in line with the BCPs. These are completed via budget transfer proformas or budget allocation requests and we were provided with examples of these during our review. However, we were unable to ascertain how/where this information is stored.

2.26 Discussion with key officers has established that there is no virements listing maintained by corporate finance that identifies transfers between Service Groups. As such we were unable to undertake sample testing of virements to confirm compliance with expected processes.

2.27 As part of our review, we liaised with colleagues in neighbouring health boards to establish their arrangements in relation to capturing virements. Both health boards maintain a separate listing that record budgetary transfers between Service Groups. **See Matter Arising 7 in Appendix A**

Conclusion:

2.28 Virements between Service Groups are processed via the central finance team which are supported by documentation. The health board does not currently maintain a virements listing that captures budgetary transfers similar to other health boards and, as such, we were unable to undertake sample testing to

provide assurance that they processed in line with policy. A **Limited** assurance rating is determined for this objective.

Audit objective 5: Arrangements are in place for the governance, oversight and scrutiny of ongoing budget management.

- 2.29 As established in objective 1, budgets are initially delegated to Service Group Directors who further delegate to Heads of Service, Deputy Directors and senior managers on an informal basis. We note that within the health board, budget holders are not issued with physical monthly reports, the onus lies with them to review their monthly dashboard reports within Oracle to monitor and scrutinise individual budgets. We were informed the finance team is looking into developing a report which shows user activity in relation to these dashboard reports. Meetings between budget holders and their designated Finance Business Partner (FBP) are undertaken as and when support is required. These are dependent on the size and complexity of the budget and meetings are not minuted as they tend to be held informally.
- 2.30 Service Group budget monitoring is undertaken formally by local finance teams on a monthly basis, including discussion at Service Group Board meetings. Unexpected variances are analysed and investigated. Each Service Group also convene weekly business meetings that have a cycle of focus depending on their needs.
- 2.31 The health board's performance management framework sets out the requirements for monthly performance reviews within Service Groups and corporate delegates. The local Finance Teams prepare reports from QlikView (the health board's data analysis system) to support this process. The designated FBP adds additional detail to the report in line with the requirements of the individual Service Group. This typically includes providing commentary and narrative on overspends and key themes and trends. We note that the weekly business meetings, performance review meetings and Service Group Boards are generally well attended and include the Service Group triumvirate (Service Group Director, Medical Director and Nursing Director), Workforce and Organisational Development and Finance colleagues, as well as divisional heads and senior managers.
- 2.32 A comparison between the format of finance reports presented at the performance review meetings and the Service Group boards was undertaken across two Service Groups. This has established commonality between the presentation and structure of the data. Some differences were noted, but this was generally due to the reporting needs of the Service Group.
- 2.33 The Performance and Finance Committee (PFC) holds delegated responsibility from the Board to undertake detailed scrutiny of performance in relation to financial planning and monitoring, including operational efficiency and effectiveness. The monthly report presented by the Director of Finance (or Deputy) is scrutinised by the Committee. The most recent report recorded a year

end deficit forecast of £24.405m, which remains in line with the Annual Plan, and we have seen examples of items requiring attention being highlighted along with the actions being taken to address them. Similar reports are also presented regularly to both the Management Board and the Board.

Conclusion:

- 2.34 There are arrangements in place for the oversight and scrutiny of budgets at budget holder, Service Group and corporate levels. A **reasonable** assurance rating is determined for this objective.

Appendix A: Management Action Plan

Matter arising 1: Delegation Letters to Budget Holders (Operation)

Impact

Budget delegation letters are issued to the four Service Group Directors. The Standing Financial Instructions states budget holders must sign the accountability letter formally delegating the budget. We note that of the four letters issued to Service Groups, the corporate Finance Team did not receive any responses.

We also note that budget holders appear to be working to the budgets delegated to them, and the health board is on track to deliver the year end position.

Potential risk of:

- Budget accountability is not formally agreed, as required by the SFIs
- Delegation letters do not fully align with standing orders

Recommendations

Priority

- 1.1 The importance of signing and returning delegation letters is re-iterated to budget holders to formally recognise budget accountability.

High

Management response

Target Date

Responsible Officer

- 1.1 Accepted. Following the publication of the 2022/23 letters, which will include a deadline for replies, the Finance team will ensure there are regular checks on the receipt of responses and where necessary ensure reminders are issued. Where no responses are received within 4 weeks of the deadline this will be escalated to the DOF. Formal responses will be held on file by the Finance Team.

End of July 2022.

Samantha Moss, Deputy Director of Finance.

Matter arising 2: Delegation Letter Recipients (Design)		Impact
<p>As part of our review, we liaised with colleagues at other health boards to establish how broadly delegation letters are issued. Letters were issued at Service Group level along with all corporate delegates. One health board issued to some deputy directors and senior managers within Service Groups, dependent on the value of the budget and significance of the service delivery within a Service Group. Within Swansea Bay, only the four Service Group Directors receive delegation letters.</p>		<p>Potential risk of:</p> <ul style="list-style-type: none"> High value budgets are not being formally reciprocated
Recommendations		Priority
2.1 Consideration is given to assess the need to issue delegation letters to a wider group of budget holders.		Medium
Management response	Target Date	Responsible Officer
2.1 Noted. As part of the wider process to review Budgetary Management this will be considered and is directly linked to the actions and programme detailed in point 4.1 of this report.	Full Review complete Q1 2023/24.	Samantha Moss, Deputy Director of Finance.

Matter arising 3: Budgetary Control Procedure is not up to date (Operation)**Impact**

Our review of Financial Control Procedure 6 - Budgetary Control Procedures noted that this document was last updated in November 2019 and was due for review in 2020/21. A paper taken to Audit Committee in November indicates review of these procedures was planned for quarter 4. We also recognise that the document is currently undergoing national review and recognise the impact of Covid-19.

Potential risk of:

- Guidance is out of date which could lead to staff error.

Recommendations**Priority**

3.1 FCP 6 - Budgetary Control Procedures should be updated to reflect current working practices.

Low

Management response**Target Date****Responsible Officer**

3.1 Noted. Agreed the FCP6 needs to be updated and aim for completion during Q2.

End of September 2022.

Andrew Biston, Assistant Director of Finance.

Matter arising 4: Budget Holder Feedback (Operation)

Impact

A sample of 20 budget holders were contacted to establish their satisfaction on the level of support they currently receive from their local finance colleagues. We received six responses (30% response rate) and the key themes identified were:

- three advised that they are satisfied with the support they receive;
- two noted that they would appreciate more regular/scheduled meetings; two advised that initial/top-up training would be welcomed; and
- one explained that they did not know who their FBP was since the transfer of the therapies service to Morriston.

Potential risk of:

- Staff not appropriately trained
- Financial support not available to staff
- Staff are disengaged from budget management

These themes are consistent with those identified within the KPMG report. However, we recognise they may not be reflective of the whole population due to the low response rate.

Recommendations

Priority

4.1 Further work is undertaken to establish what support budget holders require and consider regular engagement.

Medium

Management response

Target Date

Responsible Officer

4.1 Noted and agreed. A work stream is to be established by the end of Q1 22/23 to review the requirements of this action and develop a work Programme to support. This needs to review processes from other HB to seek out best practice. The outcomes of this work will then determine the timescales for addressing point 4.1. Anticipated this programme would take 12 months to complete in full.

Q1 2022/23.

Samantha Moss, Deputy Director of Finance.

Matter arising 5: Review of manual non-pay authorised listing**Impact**

The manual non-pay listing has approximately 280 employees that are able to authorise payments without a purchase order.

Potential risk of:

- Invoices inappropriately authorised

Recommendations**Priority**

5.1 We recommend a wider review of this listing is undertaken, to assess the need for this number of authorisers given the NHS Wales 'No PO, No Pay' policy.

Low

Management response**Target Date****Responsible Officer**

5.1 Noted. Agreed to be reviewed in Q3.

End of December 2022.

Andrew Biston, Assistant Director of Finance.

Matter arising 6: Annual checks of authorised signatories (Design)**Impact**

Authorised signatory listings are maintained in relation to the Oracle system as well as for manual non-pay transactions. Monthly checks are undertaken against ESR records to ensure leavers are removed from the approval hierarchy. Periodic checks are also undertaken at a Service Group level, although the frequency and formality vary.

As part of our review, we undertook a comparison of the arrangements in place at a sample of other health boards. This determined that annual confirmation checks are circulated to Service Groups to ensure that the authorised signatories listing is complete and that cost centres and approval limits are appropriate.

Potential risk of:

- Inaccurate authorised signatories records

Recommendations**Priority**

6.1 We recommend that this good practice annual confirmation check is completed across all Service Groups and corporate delegates and that a central listing is maintained by the Finance Team.

Low

Management response**Target Date****Responsible Officer**

6.1 Noted and agreed. A list per Service Group/Directorate will be issued annually for review by Service Group Directors and the tier below to include FBP.

Annual Process.

Andrew Biston, Assistant Director of Finance.

Matter arising 7: Virements Listing (Design)	Impact
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All virements between Service Group are processed via the central reserve and require independent review and approval from the corporate Finance Team. This provides an additional level of control to ensure transfers between Service Groups are in line with the BCPs. These are completed via budget transfer proformas or budget allocation requests and we were provided with examples of these during our review. However, we were unable to ascertain how/where this information is stored.

Discussion with key officers has established that a virements listing is not maintained by corporate finance that identifies transfers between Service Groups. As such we were unable to undertake sample testing of virements to confirm compliance with expected processes.

As part of our review, we established the arrangements in place at other health boards in relation to capturing virements. Both health boards maintain a separate listing that record budgetary transfers between Service Groups.

Potential risk of:

- Virements are not completed in line with SFIs

Recommendations	Priority
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7.1 A virements listing is maintained that captures budgetary transfers between Service Groups.

High

Management response	Target Date	Responsible Officer
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7.1 Noted. The principle should be that even transfers of budgets between Service Groups are managed via a central log of transactions. However this will be an area for review and where necessary processes amended by the newly formatted Reporting, Insight and Sustainability Team within the Finance Function.

End of July 2022.

Samantha Moss, Deputy Director of Finance.

Appendix B: Assurance opinion and action plan risk rating

Audit Assurance Ratings

We define the following levels of assurance that governance, risk management and internal control within the area under review are suitable designed and applied effectively:

	Substantial assurance	Few matters require attention and are compliance or advisory in nature. Low impact on residual risk exposure.
	Reasonable assurance	Some matters require management attention in control design or compliance. Low to moderate impact on residual risk exposure until resolved.
	Limited assurance	More significant matters require management attention. Moderate impact on residual risk exposure until resolved.
	No assurance	Action is required to address the whole control framework in this area. High impact on residual risk exposure until resolved.
	Assurance not applicable	Given to reviews and support provided to management which form part of the internal audit plan, to which the assurance definitions are not appropriate. These reviews are still relevant to the evidence base upon which the overall opinion is formed.

Prioritisation of Recommendations

We categorise our recommendations according to their level of priority as follows:

Priority level	Explanation	Management action
High	Poor system design OR widespread non-compliance. Significant risk to achievement of a system objective OR evidence present of material loss, error or misstatement.	Immediate*
Medium	Minor weakness in system design OR limited non-compliance. Some risk to achievement of a system objective.	Within one month*
Low	Potential to enhance system design to improve efficiency or effectiveness of controls. Generally issues of good practice for management consideration.	Within three months*

* Unless a more appropriate timescale is identified/agreed at the assignment.



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