

# **Audit of Accounts Report – Swansea Bay University Local Health Board**

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We intend to issue an unqualified true and fair opinion but a qualified regularity opinion on your Accounts. There are some issues to report to you prior to their approval.

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# Audit of Accounts Report

## Introduction

- 1 We summarise the main findings from our audit of your 2019-20 accounts in this report.
- 2 We have already discussed these issues with the Director of Finance and his team.
- 3 Auditors can never give complete assurance that accounts are correctly stated. Instead, we work to a level of 'materiality'. This level of materiality is set to try to identify and correct misstatements that might otherwise cause a user of the accounts into being misled. We set this level at £11.98 million for this year's audit.
- 4 There are some areas of the accounts that may be of more importance to the reader and we have set a lower materiality level for these, as follows:
  - Remuneration report/senior pay disclosure and exit packages £5,000
  - Related parties – individuals £10,000
  - Related parties – other bodies £50,000
- 5 We have now substantially completed this year's audit.
- 6 In our professional view, we have complied with the ethical standards that apply to our work; remain independent of yourselves, and, our objectivity has not been compromised in any way. There are no relationships between ourselves and yourselves that we believe could undermine our objectivity and independence.

## Impact of Covid-19 on this Year's Audit

- 7 The Covid-19 pandemic has had a significant impact on all aspects of our society and continues to do so. You are required by law to prepare accounts and it is of considerable testament to the commitment of your accounts team that you have succeeded in doing so this year in the face of the challenges posed by this pandemic. We are extremely grateful to the professionalism of the team in supporting us to complete our audit in such difficult circumstances.
- 8 The pandemic has unsurprisingly affected our audit and we summarise in **Exhibit 1** the main impacts. Other than where we specifically make recommendations, the detail in **Exhibit 1** is provided for information purposes only to help you understand the impact of the Covid-19 pandemic on this year's audit process.

## Exhibit 1 – impact of Covid-19 on this year's audit

<b>Timetable</b>	<ul style="list-style-type: none"><li>• The deadline for completing your accounts was changed by the Welsh Government from 28 April 2020 to 22 May 2020.</li><li>• We received the draft accounts on 14 May 2020.</li><li>• Our deadline for completing our audit was changed from 29 May 2020 to 26 June 2020.</li><li>• We anticipate that the Auditor General will sign your audit report on 2 July 2020.</li></ul>
<b>Electronic signatures</b>	If still necessary at the time of approval and signing, we will accept electronic signatures and electronic transfer of files.
<b>Audit evidence</b>	As in previous years, we received the majority of audit evidence in electronic format. We have used various techniques to ensure its validity. Where we have been unable to obtain access to paper documents, eg personnel files because of Covid-19 restrictions we have devised alternative audit methodologies to obtain sufficient audit evidence.

- 9 We will be reviewing what we and the Health Board have learned for our respective audit and accounts preparation processes from the Covid-19 pandemic and whether there are innovative practices that we might retain or adapt for the future to enhance that process. We will work with the Health Board and other organisations to learn lessons and continue to identify more effective ways of working in the future.

## Proposed Audit Opinion

- 10 We intend to issue an unqualified true and fair opinion but a qualified regularity opinion on your Accounts once you have provided us with a Letter of Representation based on that set out in **Appendix 1**.
- 11 We issue a 'qualified' audit opinion where we have material concerns about some aspects of your accounts; otherwise we issue an unqualified opinion.
- 12 The Letter of Representation contains certain confirmations we are required to obtain from you under auditing standards along with confirmation of other specific information you have provided to us during our audit.
- 13 Our proposed audit report is set out in **Appendix 2**. This includes, as in previous years, a qualified opinion on regularity along with a substantive report explaining the reasons for that qualification.
- 14 The Auditor General's substantive report in **Appendix 2** outlines the statutory financial duties in the NHS, and the fact that the Health Board did not meet its

financial duty to have an approved three-year integrated medium-term plan for the period 2019-20 to 2021-22. The report also explains that the regularity opinion qualification for 2019-20 is because the Health Board did not meet its revenue resource allocation over the three-year period ending 2019-20.

## Significant issues arising from the Audit

### Uncorrected misstatements

- 15 There are no misstatements identified in the accounts, which remain uncorrected.

### Corrected misstatements

- 16 There were initially misstatements in the accounts that have now been corrected by management. However, we believe that the more significant of these should be drawn to your attention and these are set out with explanations in **Appendix 3**.

### Other Significant Issues arising from the Audit

- 17 There are no other significant issues that we need to bring to your attention.

# Appendix 1

## Final Letter of Representation

[Audited body's letterhead]

Auditor General for Wales  
Wales Audit Office  
24 Cathedral Road  
Cardiff  
CF11 9LJ

25 June 2020

## Representations regarding the 2019-20 financial statements

This letter is provided in connection with your audit of the financial statements (including that part of the Remuneration Report that is subject to audit) of Swansea Bay University Local Health Board (the Health Board) for the year ended 31 March 2020 for the purpose of expressing an opinion on their truth and fairness, their proper preparation and the regularity of income and expenditure.

We confirm that to the best of our knowledge and belief, having made enquiries as we consider sufficient, we can make the following representations to you.

## Management representations

### Responsibilities

As Chief Executive and Accountable Officer I have fulfilled my responsibility for:

- Preparing the financial statements in accordance with legislative requirements and the Treasury's Financial Reporting Manual. In preparing the financial statements, I am required to:
  - observe the accounts directions issued by Welsh Ministers, including the relevant accounting and disclosure requirements and apply appropriate accounting policies on a consistent basis;
  - make judgements and estimates on a reasonable basis;
  - state whether applicable accounting standards have been followed and disclosed and explain any material departures from them; and
  - prepare them on a going concern basis on the presumption that the services of the Health Board will continue in operation.
- Ensuring the regularity of any expenditure and other transactions incurred.
- The design, implementation and maintenance of internal control to prevent and detect error.

## Information provided

We have provided you with:

- Full access to:
  - all information of which we are aware that is relevant to the preparation of the financial statements such as books of account and supporting documentation, minutes of meetings and other matters;
  - additional information that you have requested from us for the purpose of the audit; and
  - unrestricted access to staff from whom you determined it necessary to obtain audit evidence.
- The results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- Our knowledge of fraud or suspected fraud that we are aware of and that affects the Health Board and involves:
  - management;
  - employees who have significant roles in internal control; or
  - others where the fraud could have a material effect on the financial statements.
- Our knowledge of any allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, regulators or others.
- Our knowledge of all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.
- The identity of all related parties and all the related party relationships and transactions of which we are aware.
- Our knowledge of all possible and actual instances of irregular transactions.

## Financial statement representations

All transactions, assets and liabilities have been recorded in the accounting records and are reflected in the financial statements.

Significant assumptions used in making accounting estimates, including those measured at fair value, are reasonable.

Related party relationships and transactions have been appropriately accounted for and disclosed.

All events occurring subsequent to the reporting date which require adjustment or disclosure have been adjusted for or disclosed.

All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to the auditor and



accounted for and disclosed in accordance with the applicable financial reporting framework.

The financial statements are free of material misstatements, including omissions. There were no uncorrected misstatements identified during the audit.

## **Representations by those charged with governance**

We acknowledge that the representations made by management, above, have been discussed with us.

We acknowledge our responsibility for ensuring that we maintain adequate accounting records.

We acknowledge our responsibility for the preparation of true and fair financial statements in accordance with the applicable financial reporting framework. The financial statements were approved by the Health Board on 25 June 2020.

We confirm that we have taken all the steps that we ought to have taken in order to make ourselves aware of any relevant audit information and to establish that it has been communicated to you. We confirm that, as far as we are aware, there is no relevant audit information of which you are unaware.

Signed by:

Chief Executive as Accountable Officer

Date:

Signed by:

Chair of Board

Date:

# Appendix 2

## Proposed Audit Report

### The Certificate of the Auditor General for Wales to the Senedd

I certify that I have audited the financial statements of Swansea Bay University Local Health Board for the year ended 31 March 2020 under Section 61 of the Public Audit (Wales) Act 2004. These comprise the Statement of Comprehensive Net Expenditure, the Statement of Financial Position, the Cash Flow Statement and Statement of Changes in Tax Payers Equity and related notes, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and HM Treasury's Financial Reporting Manual based on International Financial Reporting Standards (IFRSs).

#### Opinion

In my opinion the financial statements:

- give a true and fair view of the state of affairs of Swansea Bay University Local Health Board as at 31 March 2020 and of its net operating costs for the year then ended; and
- have been properly prepared in accordance with the National Health Service (Wales) Act 2006 and directions made there under by Welsh Ministers.

I draw attention to Note 21 of the financial statements, which describes the impact of a Ministerial Direction issued on 18 December 2019 to the Permanent Secretary of the Welsh Government, instructing her to fund NHS Clinicians' pension tax liabilities incurred by NHS Wales bodies in respect of the 2019-20 financial year. The Health Board has disclosed the existence of a contingent liability at 31 March 2020, and my opinion is not modified in respect of this matter.

#### Basis for opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing in the UK (ISAs (UK)). My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. I am independent of the board in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

## Conclusions relating to going concern

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Chief Executive has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the board's ability to continue to adopt the going concern basis of accounting for a period of at least 12 months from the date when the financial statements are authorised for issue.

## Other information

The Chief Executive is responsible for the other information in the annual report and accounts. The other information comprises the information included in the annual report other than the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in my report, I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies, I consider the implications for my report.

## Qualified opinion on regularity

### Basis for qualified opinion on regularity

The Health Board has breached its resource limit by spending £58.580 million over the £3,143 million that it was authorised to spend in the three-year period 2017-18 to 2019-20. This spend constitutes irregular expenditure. Further detail is set out in the attached Report.

### Qualified opinion on regularity

In my opinion, except for the irregular expenditure of £58.580 million explained in the paragraph above, in all material respects, the expenditure and income have been applied to the purposes intended by the Senedd and the financial transactions conform to the authorities which govern them.

## Report on other requirements

### Opinion on other matters

In my opinion, the part of the remuneration report to be audited has been properly prepared in accordance with the National Health Service (Wales) Act 2006 and directions made there under by Welsh Ministers.

In my opinion, based on the work undertaken in the course of my audit:

- the information given in the Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and the Governance Statement has been prepared in accordance with Welsh Ministers' guidance; and
- the information given in the Foreword and Accountability Report for the financial year for which the financial statements are prepared is consistent with the financial statements, and the Foreword and Accountability Report has been prepared in accordance with Welsh Ministers' guidance.

### Matters on which I report by exception

In the light of the knowledge and understanding of the board and its environment obtained in the course of the audit, I have not identified material misstatements in the Foreword and Accountability Report.

I have nothing to report in respect of the following matters, which I report to you, if, in my opinion:

- proper accounting records have not been kept;
- the financial statements are not in agreement with the accounting records and returns;
- information specified by HM Treasury or Welsh Ministers regarding remuneration and other transactions is not disclosed; or
- I have not received all the information and explanations I require for my audit.

### Report

Please see my Report on pages x to y.

## Responsibilities

### Responsibilities of Directors and the Chief Executive for the financial statements

As explained more fully in the Statements of Directors' and Chief Executive's Responsibilities, the Directors and the Chief Executive are responsible for the preparation of financial statements which give a true and fair view and for such internal control as the

Directors and Chief Executive determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors and Chief Executive are responsible for assessing the board's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

### **Auditor's responsibilities for the audit of the financial statements**

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of my auditor's report.

### **Responsibilities for regularity**

The Chief Executive is responsible for ensuring the regularity of financial transactions.

I am required to obtain sufficient evidence to give reasonable assurance that the expenditure and income have been applied to the purposes intended by the Senedd and the financial transactions conform to the authorities which govern them.

Adrian Crompton  
Auditor General for Wales  
2 July 2020

24 Cathedral Road  
Cardiff  
CF11 9LJ

## Report of the Auditor General to the Senedd

### Introduction

Local Health Board (LHBs) are required to meet two statutory financial duties – known as the first and second financial duties.

For 2019-20 Swansea Bay University Local Health Board (the LHB) failed to meet both the first and the second financial duty and so I have decided to issue a narrative report to explain the position.

### Failure of the first financial duty

The **first financial duty** gives additional flexibility to LHBs by allowing them to balance their income with their expenditure over a three-year rolling period. The fourth three-year period under this duty is 2017-18 to 2019-20, and so it is measured this year for the fourth time.

As shown in Note 2.1 to the Financial Statements, the LHB did not manage its revenue expenditure within its resource allocation over this three-year period, exceeding its cumulative revenue resource limit of £3,143 million by £58.580 million. The LHB did not therefore meet its first financial duty.

Where an LHB does not balance its books over a rolling three-year period, any expenditure over the resource allocation (ie spending limit) for those three years exceeds the LHB's authority to spend and is therefore 'irregular'. In such circumstances, I am required to qualify my 'regularity opinion' irrespective of the value of the excess spend.

### Failure of the second financial duty

The **second financial duty** requires LHBs to prepare and have approved by the Welsh Ministers a rolling three-year integrated medium-term plan. This duty is an essential foundation to the delivery of sustainable quality health services. An LHB will be deemed to have met this duty for 2019-20 if it submitted a 2019-20 to 2021-22 plan approved by its Board to the Welsh Ministers who then approved it by 30 June 2019.

As shown in Note 2.3 to the Financial Statements, the LHB did not meet its second financial duty to have an approved three-year integrated medium-term plan in place for the period 2019-20 to 2021-22.

On 1 April 2019, the responsibility for commissioning healthcare services for the people in the Bridgend County Borough Council area transferred from the former Abertawe Bro Morgannwg University Health Board to Cwm Taf Morgannwg University Health Board, and the former Health Board was renamed Swansea Bay University Local Health Board. However, the Welsh Government determined that the accumulated deficit of the former Health Board should remain in its entirety with the Swansea Bay University Health Board, rather than be apportioned as part of the transfer process. The effect of that decision is to

increase the scale of the financial challenge faced by the Health Board in recovering its financial position.

**Adrian Crompton**

**Auditor General for Wales**

**2 July 2020**

# Appendix 3

## Summary of Corrections Made

During our audit we identified the following misstatements that have been corrected by management, but which we consider should be drawn to your attention due to their relevance to your responsibilities over the financial reporting process.

### Exhibit 2: summary of corrections made

Nature of correction	Reason for correction
<p>Note 9.1 was amended:</p> <ul style="list-style-type: none"><li>• To split £4.6 million of MEDACS expenditure from Agency to Other (corresponding staff numbers in Note 9.2 were also amended).</li><li>• To separately disclose the Final Pay Control Charges for which the health board was liable as a result of NHS pension scheme members receiving an increase to pensionable pay that exceeds the 'allowable amount'.</li></ul>	<p>To ensure staff costs and charges are correctly disclosed.</p>
<p>The remuneration report was amended:</p> <ul style="list-style-type: none"><li>• To split the ex gratia payment for the former Director of Finance from the 'salary' to 'other' column.</li><li>• To correct a number of minor narrative disclosures and typos.</li></ul>	<p>To ensure remuneration is correctly disclosed.</p>
<p>A number of other minor amendments were made to the financial statements relating to either revisions to disclosures of information, narrative changes or typos.</p>	<p>To ensure accuracy of the financial statements.</p>







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We welcome correspondence and  
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Rydym yn croesawu gohebiaeth a  
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