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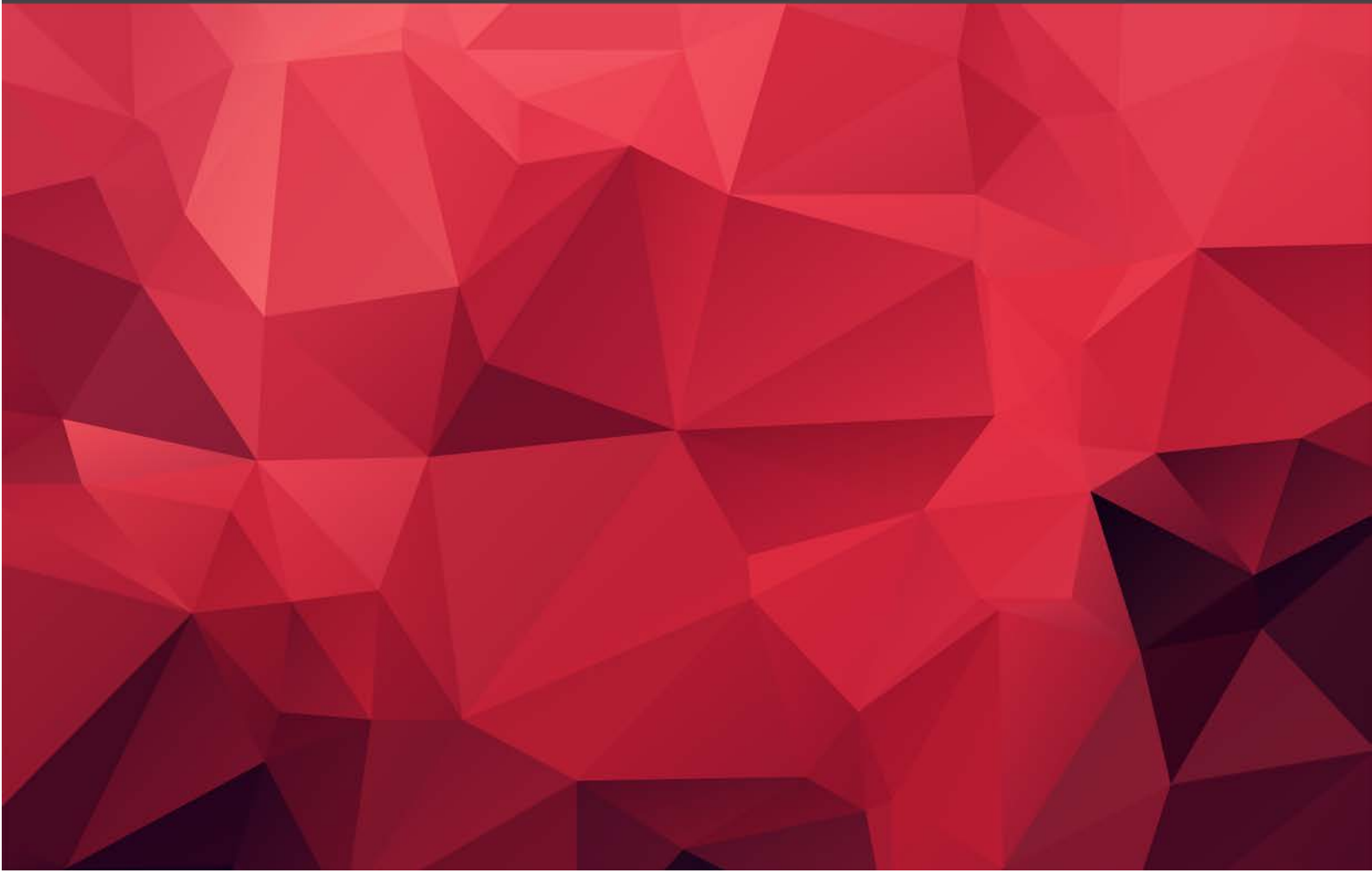
Archwilydd Cyffredinol Cymru
Auditor General for Wales

2018 Audit Plan – **Abertawe Bro Morgannwg University Health Board**

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This document was produced by Dave Thomas, Ann-Marie Harkin, Carol Moseley and Geraint Norman on behalf of the Auditor General for Wales.

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2018 Audit Plan

Summary

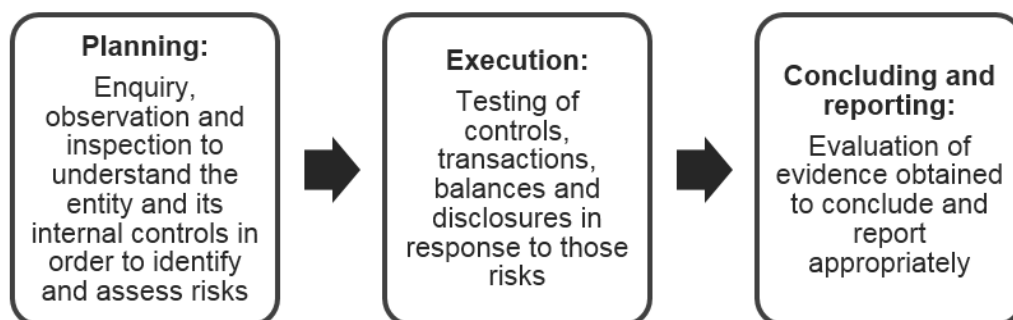
- 1 As your external auditor, my objective is to carry out an audit which discharges my statutory duties as Auditor General and fulfils my obligations under the Code of Audit Practice, namely to:
 - examine and certify whether your financial statements are 'true and fair' and lay them before the National Assembly together with any report that I make on them;
 - satisfy myself that the expenditure and income reported in your financial statements have been incurred or received lawfully and in accordance with the authorities which govern them; and
 - assess whether you have made proper arrangements for securing economy, efficiency and effectiveness in the use of resources.
- 2 The purpose of this plan is to set out my proposed work, when it will be undertaken, how much it will cost and who will undertake it. There have been no limitations imposed on me in planning the scope of this audit.
- 3 My responsibilities, along with those of management and those charged with governance, are set out in [Appendix 1](#).

Financial audit

- 4 It is my responsibility to issue a certificate and report on the financial statements which includes an opinion on their 'truth and fairness' and the regularity of the expenditure and income within them. [Appendix 1](#) sets out my responsibilities in full.
- 5 The audit work we undertake to fulfil our responsibilities responds to our assessment of risks. This understanding allows us to develop an audit approach which focuses on addressing specific risks whilst providing assurance for the financial statements as a whole. Our audit approach consists of three phases as set out in [Exhibit 1](#).

Exhibit 1: my financial audit approach

This table summarises the three phases of my financial audit approach, being planning, testing and reporting.



- 6 The risks of material misstatement which I consider to be significant, and which therefore require special audit consideration, are set out in [Appendix 2](#) along with the work I intend to undertake to address them.
- 7 I do not seek to obtain absolute assurance on the truth, fairness and regularity of the financial statements and related notes, but adopt a concept of materiality. My aim is to identify material misstatements, that is, those that might result in a reader of the accounts being misled. The levels at which I judge such misstatements to be material will be reported to the Audit Committee prior to completion of the audit.
- 8 For reporting purposes, we will generally treat any misstatements below a 'trivial' level (set at 5% of materiality) as not requiring consideration by those charged with governance and therefore we will not report them.
- 9 My fees are based on the following assumptions:
 - information provided to support the financial statements is timely, to the quality expected and has been subject to quality assurance review;
 - appropriate accommodation and facilities are provided to enable my audit team to deliver our audit in an efficient manner;
 - all appropriate officials will be available during the audit;
 - you have all the necessary controls and checks in place to enable the Accountable Officer to provide all the assurances that I require in the Letter of Representation addressed to me;
 - Internal Audit's planned programme of work is complete and management has responded to issues that may have affected the financial statements; and
 - to avoid duplication, where possible we intend to rely on Internal Audit's work.
- 10 I am also responsible for the audit of Abertawe Bro Morgannwg University Health Board's (the Health Board's) charitable funds financial statements. The audit will be

undertaken in accordance with the timescales agreed with the Health Board and the Charity Commission.

Performance audit

- 11 It is my responsibility to satisfy myself that the Health Board has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. I do this by undertaking an appropriate programme of performance audit work each year.
- 12 I set out in this section, the programme of performance audit work to be undertaken at the Health Board. The content of the programme is informed by an ongoing analysis of the risks and challenges facing NHS Wales as a whole, as well as consideration of issues and risks that are specific to the Health Board. I have also taken account of the work programme of Healthcare Inspectorate Wales (HIW)^{1 2}.
- 13 The topics I plan to examine as part of my 2018 performance audit work is summarised in **Exhibit 2**.

¹ Healthcare Inspectorate Wales and the Auditor General for Wales, **Operational Protocol between Healthcare Inspectorate Wales and the Auditor General for Wales**, March 2015

(This report sets out how the two organisations will work together.)

² Healthcare Inspectorate Wales and the Auditor General for Wales, **Working Together to Provide Assurance**, November 2016

(This report describes the collective arrangements the AGW and HIW make use of to review governance arrangements in the NHS.)

Exhibit 2: contents of my 2018 performance audit work programme

This table sets out my performance audit work programme for 2018, summarising the key areas of focus and approach.

Theme	Approach/key areas of focus
NHS Structured Assessment	<p>This work will continue to assess the robustness of NHS bodies' arrangements for corporate governance and financial management, and the progress that is being made in addressing issues and concerns identified in previous years' structured assessments.</p> <p>My structured assessment work in recent years has included comparative assessments of aspects of governance which have presented challenges to most NHS bodies. I intend to continue to pursue this approach in 2018 and I will engage with NHS bodies during the early part of the year to identify which areas of comparative analysis would be most useful.</p>
All Wales Thematic Reviews	<p>Orthopaedic Services: Follow-up</p> <p>As part of my commitment to assess the progress made in areas I have previously reviewed, I plan to examine the progress made in orthopaedic services since my 2015 all-Wales review.</p> <p>My work will assess whether my recommendations and areas I identified for improvement have been effectively responded to and to determine whether health boards are developing arrangements to help manage the demand on, and supply of, orthopaedic services.</p> <p>Clinical Coding: Follow-up</p> <p>I plan to examine the progress made in responding to the recommendations that I set out in my 2014 review of clinical coding arrangements across health boards and Velindre NHS Trust. This review will assess the extent to which there have been improvements in raising the profile of clinical coding, the timeliness and quality of clinical coding data, and the quality of the medical records, which are the predominant source of the coding process.</p>
Locally focused work	<p>I will also undertake thematic performance audit work that reflects issues specific to the Health Board. The precise focus of this work will be agreed with executive officers and the Audit Committee, and will be reflected in the regular updates that are produced for the Audit Committee.</p>

Theme	Approach/key areas of focus
Implementing previous audit recommendations	The examination of governance arrangements I undertake as part of my structured assessment work includes a review of the arrangements that the Health Board has in place to track progress against my previous audit recommendations. This allows my team to obtain assurance that the necessary progress is being made in addressing areas for improvement identified in previous audit work. It also enables me to more explicitly measure the impact my work is having.

- 14 The performance audit projects included in last year's audit plan, which are either still underway or which have been substituted for alternative projects in agreement with the Health Board, are set out in [Appendix 3](#).

Fee, audit team and timetable

Fee

- 15 Your estimated fee for 2018 is set out in [Exhibit 3](#). This figure represents a 1.2% decrease compared to the fee set out in the 2017 annual audit plan.

Exhibit 3: audit fee

This table sets out the proposed audit fee for 2018, by area of audit work, alongside the actual audit fee for 2017.

Audit area	Proposed fee for 2018 (£) ³	Actual fee for 2017 (£)
Financial accounts work	250,431	255,431
Performance audit work:		
• Structured Assessment	76,330	74,152
• All-Wales thematic reviews ⁴	71,512	72,074
• Local projects	18,534	20,150
Performance audit work total	166,376	166,376
Total fee	416,807	421,807

³ The fees shown in this document are exclusive of VAT, which is no longer charged to you.

⁴ As detailed in the respective audit plans.

- 16 Planning will be ongoing, and changes to my programme of audit work and therefore my fee, may be required if any key new risks emerge. I shall make no changes without first discussing them with the Audit Committee.
- 17 [Further information on my fee scales and fee setting can be found on our website.](#)

Audit team

- 18 The main members of my local audit team, together with their contact details, are summarised in [Exhibit 4](#).

Exhibit 4: my local audit team

This table lists the members of the local audit team and their contact details.

Name	Role	Contact number	E-mail address
Dave Thomas*	Engagement Lead: Performance Audit	02920 320604 07798 503064	Dave.Thomas@audit.wales
Ann-Marie Harkin	Engagement Lead: Financial Audit	02920 320562 07967 321350	Ann-Marie.Harkin@audit.wales
Carol Moseley	Performance Audit Manager	02920 829302 07771 943265	Carol.Moseley@audit.wales
Geraint Norman	Financial Audit Manager	02920 829300 07810 056683	Geraint.Norman@audit.wales

*Engagement Director for the Health Board

- 19 I can confirm that my team members are all independent of the Health Board and your officers. In addition, I am not aware of any potential conflicts of interest that I need to bring to your attention.

Timetable

- 20 I will provide reports, or other outputs as agreed, to the Health Board covering the areas of work identified in this document. My key milestones are set out in **Exhibit 5**.

Exhibit 5: timetable

This table sets out the key milestones for the planned audit outputs.

Planned output	Work undertaken	Report finalised with management
2018 Audit Plan	December 2017 to February 2018	February/March 2018
Financial accounts work: <ul style="list-style-type: none">• Audit of Financial Statements Report• Opinion on Financial Statements• Financial Accounts Memorandum	February to June 2018	June 2018 June 2018 July 2018
Performance work: <ul style="list-style-type: none">• Structured Assessment• Orthopaedic Services follow-up• Clinical Coding follow-up• Local project work	Timescales for individual projects will be discussed with the Board and detailed within the specific project briefings produced for each study.	
Annual Audit Report for 2018	December 2018	January 2019
2019 Audit Plan	January 2019	February/March 2019

Future developments to my audit work

Well-being of Future Generations (Wales) Act 2015

- 21 The Well-being of Future Generations (Wales) Act 2015 (the Act) became law in April 2016. The Act requires me to report every five years to the National Assembly on how public bodies apply the sustainability principles. During 2017 and the early part of 2018, I have undertaken my first work relating to the Act. This has sought to understand how public bodies are beginning to respond to the Act, to identify and disseminate emerging practice and to help inform the focus of future audit work. The findings will take the form of a Year One Commentary, and will be shared at a national event in May 2018.

- 22 I plan to undertake further specific work at individual NHS bodies during 2019 that will inform the report I must prepare for the National Assembly by May 2020. My 2019 audit plan for the Health Board will provide more detail on this work. In the meantime I will use my wider programme of work to continue to build up a picture of how public bodies are applying the sustainable development principle.
- 23 The work I plan to undertake to discharge my requirements under the Act will be integrated into my existing statutory programme of work, which means that there will be no increase in the audit fee arising from my work on the Well Being of Future Generations.

Other

- 24 Details of other future developments including forthcoming changes to key International Financial Reporting Standards (IFRS) for charitable funds, future changes to UK Generally Accepted Accounting Practice (UK GAAP) and of the Wales Audit Office's Good Practice Exchange seminars are set out in [Appendix 4](#).

Appendix 1

Respective responsibilities

My powers and duty to undertake your financial audit are set out in the Public Audit (Wales) Act 2004. It is my responsibility to issue a certificate and report on the financial statements which includes an opinion on:

- their 'truth and fairness', providing assurance that they:
 - are free from material misstatement, whether caused by fraud or error;
 - comply with the statutory and other applicable requirements; and
 - comply with all relevant requirements for accounting presentation and disclosure.
- whether the remuneration report is properly prepared.
- the regularity of the expenditure and income.
- the consistency of other information presented with the financial statements.

It must also state by exception if the Annual Governance Statement does not comply with requirements, if proper accounting records have not been kept, if disclosures required for remuneration and other transactions have not been made or if I have not received all the information and explanations I require.

In addition, I may place a substantive report on the financial statements if I wish to make additional observations on any matters within them.

My powers to undertake performance audit work at the Health Board are set out in the Government of Wales Acts 1998 and 2006 and this work also discharges my duty under the Public Audit (Wales) Act 2004 to satisfy myself that the body has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

My audit work does not relieve management and those charged with governance of their responsibilities which include:

- the preparation of the financial statements and annual report in accordance with applicable accounting standards and guidance;
- the keeping of proper accounting records;
- ensuring the regularity of financial transactions; and
- securing value for money in the use of resources.

Appendix 2

Significant financial audit risks

Exhibit 6: key financial audit risks

This table summarises key financial audit risks and the corresponding audit work planned in response.

Significant audit risk	Proposed audit response
The risk of management override of controls is present in all entities. Due to the unpredictable way in which such override could occur, it is viewed as a significant risk [ISA 240.31-33].	My audit team will: <ul style="list-style-type: none">• test the appropriateness of journal entries and other adjustments made in preparing the financial statements;• review accounting estimates for biases; and• evaluate the rationale for any significant transactions outside the normal course of business.
There is a risk of material misstatement due to fraud in revenue recognition and as such is treated as a significant risk [ISA 240.26-27].	My audit team will: <ul style="list-style-type: none">• review and test the individual funding and income streams received by the Health Board; and• consider whether all funding and income streams have been identified.
There is a significant risk that the Health Board will fail to meet its revenue resource allocation . The month 9 position showed a forecast year-end deficit of £36 million. Should the Health Board fail to meet its revenue allocation, I will qualify my regularity opinion and may choose to place a substantive report on the financial statements explaining the failure and the circumstances under which it arose. The current financial pressures on the Health Board increase the risk that management judgements and estimates could be biased in an effort to achieve the resource limit.	My audit team will focus its testing on areas of the financial statements which could contain reporting bias. I may choose to place a substantive report on the financial statements explaining the failure and the circumstances under which it arose.

Significant audit risk	Proposed audit response
<p>Liabilities for continuing healthcare costs continue to be a significant financial issue for the Health Board. The 31 July 2014 deadline for the submission of any claims for continuing healthcare costs dating back to 1 April 2003 resulted in a large increase in the number of claims registered last financial year and the Health Board includes within its financial statements amounts relating to those uncertain continuing healthcare costs. There is a risk that these amounts are not correctly reflected in the financial statements and the financial statements could be materially misstated.</p>	<p>My audit team will audit Continuing Healthcare expenditure and ensure the correct accounting treatment.</p>
<p>In 2017-18 the Health Board is required to revalue its land and buildings as part of the five year revaluation programme. Given the value of these assets held by the Health Board is some £525 million they are material to the financial statements. In addition, the revaluation will be using a revised valuation approach. There is a risk that the revaluation is not correctly reflected in the financial statements and the financial statements could be materially misstated.</p>	<p>My audit team will audit the revaluation of land and buildings and ensure the correct accounting treatment.</p>
<p>Last year the Supreme Court delivered its ruling that Health Boards in Wales must revisit their approach to funding nursing care in care homes. Negotiations are ongoing but the impact at the Health Board could be material and the accounting approach in 2017-18 is likely to involve significant estimates and judgements. As such it is viewed as a significant risk.</p>	<p>My audit team will undertake specific work on the accounting treatment of the funding of nursing care to ensure accounting and reporting are materially correct.</p>
<p>The Health Board has agreed a number of severance packages with staff during 2017-18. These items are materially sensitive by nature and if the correct procedures are not followed there could be an impact on my regularity opinion.</p>	<p>My audit team will work with the Health Board during the year. My team will then review a sample of severance packages at the year-end.</p>

Appendix 3

Performance audit work in last year's audit plan still in progress

Exhibit 7: 2017 performance audit work still in progress

This table summarises the status of performance audit work in last year's audit plan which is still in progress

Performance audit project	Status	Comment
Primary Care Services	Set up	Draft report planned for Summer 2018.
Integrated Care Fund	Scoping	Fieldwork due to commence in March 2018. A single national report planned for November 2018.
Board development support	Details being agreed with the Health Board	To use structured assessment findings to contribute to Board development work on the role of scrutiny and assurance.

Appendix 4

Other future developments

Forthcoming key IFRS changes

Exhibit 8: changes to IFRS standards

This table details the key future changes to International Financial Reporting Standards

Standard	Effective date	Further details
IFRS 9 Financial instruments	2018-19	IFRS 9 financial instruments will replace IAS 39 and includes a new principles-based approach for the classification and measurement of financial assets. It also introduces a new impairment methodology for financial assets based on an expected losses rather than incurred losses. This will result in earlier and timelier recognition of expected credit losses. The accounting requirements for financial liabilities are almost all carried forward unchanged from IAS 39.
IFRS 15 Revenue from contracts with customers	2018-19	IFRS 15 revenue from contracts with customers introduces a principles-based five-step model for recognising revenue arising from contracts with customers. It is based on a core principle requiring revenue recognition to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration the body expects to be entitled to, in exchange for those goods or services. It will also require more extensive disclosures than are currently required.
IFRS 16 Leases	2019-20	IFRS 16 will replace the current leases standard IAS 17. The key change is that it largely removes the distinction between operating and finance leases for lessees by introducing a single lessee accounting model that requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. It will lead to all leases being recognised on the balance sheet as an asset based on a 'right of use' principle with a corresponding liability for future rentals. This is a significant change in lessee accounting.

Future changes to UK GAAP (charitable funds financial statements)

Following the introduction of the new UK GAAP accounting regime in 2015-16, and the replacement of the Financial Reporting Standard for Smaller Entities (FRSSE) by Section 1A of FRS 102 in 2016-17, there will be no substantive changes to FRS 102 until 2019-20. Any changes made then are expected to be limited in nature.

More significant amendments are expected from 2022-23, reflecting recent changes in International Financial Reporting Standards (IFRS), including accounting for financial instrument and leases.

Good Practice Exchange (GPX)

The Wales Audit Office's GPX helps public services improve by sharing knowledge and practices that work. Events are held where knowledge can be exchanged face to face and resources shared on line. The main areas of work are regarding financial management, public-sector staff and governance. [Further information, including details of forthcoming GPX events and outputs from past seminars.](#)

General Data Protection Regulation (GDPR)

The GDPR is a new data protection law for the whole of the EU applicable from 25 May 2018, which has the intention of harmonising and updating data protection laws. The UK Government has introduced the Data Protection Bill which will incorporate the GDPR into UK law and replace the 1998 Data Protection Act, and which it intends will also come into force on 25 May 2018.

The GDPR introduces new requirements for personal data processing, including an accountability principle which will require more detailed records of the processing of personal data, evidence of compliance with the data protection principles and the technical and organisational security measures taken to protect the data. We are updating our own policies, processes and documentation with a view to meeting these requirements and expect that the bodies we audit will be taking similar steps. Key areas of additional work include the use of more detailed fair processing notices, more privacy impact assessments and more extensive record keeping in relation to processing activities.

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