



WALES AUDIT OFFICE  
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Auditor General for Wales

# 2019 Audit Plan – Abertawe Bro Morgannwg University Health Board

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Further information on this is provided in in Appendix 1.

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

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# 2019 Audit Plan

## Summary

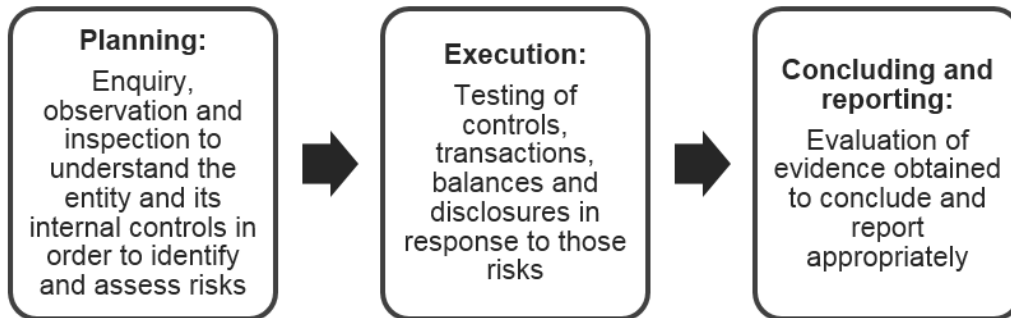
- 1 As your external auditor, my objective is to carry out an audit which discharges my statutory duties as Auditor General and fulfils my obligations under the Code of Audit Practice, namely to:
  - examine and certify whether your financial statements are 'true and fair' and lay them before the National Assembly together with any report that I make on them;
  - satisfy myself that the expenditure and income reported in your accounts 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.
- 3 There have been no limitations imposed on me in planning the scope of this audit.
- 4 My responsibilities, along with those of management and those charged with governance, are set out in [Appendix 1](#).

## Financial audit

- 5 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.
- 6 The audit work I undertake to fulfil my responsibilities responds to my assessment of risks. This understanding allows me to develop an audit approach which focuses on addressing specific risks whilst providing assurance for the financial statements as a whole. My audit approach consists of three phases as set out in [Exhibit 1](#).

### Exhibit 1: my financial audit approach

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



- 7 The risks of material misstatement which I consider to be significant, and which therefore require special audit consideration, are set out in **Exhibit 2** along with the work I intend to undertake to address them.

### Exhibit 2: Financial audit risks

Financial audit risks	Proposed audit response
<b>Significant risks</b>	
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"><li>• test the appropriateness of journal entries and other adjustments made in preparing the financial statements;</li><li>• review accounting estimates for biases; and</li><li>• evaluate the rationale for any significant transactions outside the normal course of business.</li></ul>
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"><li>• review and test the individual funding and income streams received by the Health Board; and</li><li>• consider whether all funding and income streams have been identified.</li></ul>

Financial audit risks	Proposed audit response
<p>There is a significant risk that the Board will fail to meet its first financial duty to break even over a three-year period. The position at month 9 shows a year-to-date deficit of £13.8m and a forecast year-end deficit of £10m. These are after receipt of £10m of additional funding from the Welsh Government. This combined with the outturns for 2016-17 and 2017-18, predicts a three year deficit position. Where the Board fails this financial duty I will qualify my regularity opinion and will place a substantive report on the financial statements highlighting the failure.</p> <p>The current financial pressures on the Board increase the risk that management judgements and estimates could be biased in an effort to achieve the financial duty.</p>	<p>My audit team will focus its testing on areas of the financial statements which could contain reporting bias.</p> <p>I may choose to place a substantive report on the financial statements explaining the failure and the circumstances under which it arose.</p>
<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.</p> <p>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>
Other areas of audit attention	
<p><b>Bridgend Boundary Transfer</b></p> <p>From 1 April 2019, the responsibility for providing healthcare services for people in the Bridgend County Borough Council area will move from Abertawe Bro Morgannwg University Health Board (ABM UHB) to Cwm Taf University Health Board (CT UHB).</p>	<p>My audit team will liaise with finance staff to ensure that the accounts production plan is adhered to and appropriate disclosures made.</p>

Financial audit risks	Proposed audit response
<p>Whilst this will not present any direct risks over the transactions within the 2018-19 financial statements, the financial statements will still need to disclose this change from 1 April 2019.</p> <p>Health Board staff face significant additional work from this change, increasing the risk that the Health Board may not produce its 2018-19 financial statements by the required deadlines.</p>	
<p><b>New accounting standards</b></p> <p>IFRS 9 financial instruments applies from 1 April 2018 and brings in 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 expected losses rather than incurred losses. This will result in earlier recognition of expected credit losses and will impact on how the Health Board calculates its bad debt provision.</p> <p>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.</p>	<p>My audit team will assess the likely impacts of the new IFRSs and undertake work to respond to any identified risks of material misstatement.</p>

- 8 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.

- 9 For reporting purposes, I will treat any misstatements below a 'trivial' level (set at 5% of materiality) as not requiring consideration by those charged with governance and therefore I will not report them.
- 10 My fees and planned timescales for completion of the audit are based on the following assumptions:
- the financial statements are provided in accordance with the agreed timescales, to the quality expected and have been subject to a robust quality assurance review;
  - information provided to support the financial statements is in accordance with the agreed audit deliverables document<sup>1</sup>;
  - 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.
- 11 I am also responsible for the audit of Abertawe Bro Morgannwg University Health Board's (the Health Board's) charitable funds accounts. The audit will be undertaken in accordance with the timescales agreed with the Health Board and the Charity Commission.

## Performance audit

- 12 It is my responsibility to satisfy myself that the audited body 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 work each year.
- 13 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

<sup>1</sup> The agreed audit deliverables document sets out the expected working paper requirements to support the financial statements and include timescales and responsibilities



also taken account of the work programme of Healthcare Inspectorate Wales (HIW)<sup>2,3</sup>.

- 14 The topics I plan to examine as part of my 2019 performance audit work are summarised in **Exhibit 3**.

**Exhibit 3: contents of my 2019 performance audit work programme**

Theme	Approach/key areas of focus
<b>NHS Structured Assessment</b>	Structured Assessment will continue to form the basis of the work I do at each NHS body to examine the existence of proper arrangements for the efficient, effective and economical use of resources. Building on previous years' work, I will seek to describe the progress that is being made in embedding sound arrangements for corporate governance and financial management, alongside other key processes such as strategic planning, workforce management, procurement and asset management.
<b>All Wales Thematic Reviews</b>	<p><b>Quality Governance arrangements</b></p> <p>As an extension of my structured assessment work, I plan to undertake a specific thematic review of quality governance arrangements and how these underpin the work of quality and safety committees. In recent years my structured assessment work across Wales has pointed to various challenges with such governance arrangements. I therefore intend to undertake a review that will allow my team to undertake a more detailed examination of factors underpinning quality governance such as strategy, structures and processes, information flows and reporting.</p> <p>I shall scope this work in discussion with NHS bodies, and Healthcare Inspectorate Wales. In designing this work I will also seek to build in an ability to compare and contrast approaches to quality governance across NHS bodies.</p> <p><b>Well Being of Future Generations (Wales) Act 2015</b></p> <p>The Well-being of Future Generations (Wales) Act 2015 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 the first half of 2019, I plan to undertake work at the Health Board that will inform the report I must prepare for the National Assembly by May 2020.</p>

<sup>2</sup> [An operational protocol between HIW and the Auditor General sets out how the two organisations will work together](#), March 2015

<sup>3</sup> [Wales Audit Office, Working Together to Provide Assurance describes the collective arrangements the AGW and HIW make use of to review governance arrangements in the NHS](#), November 2016

Theme	Approach/key areas of focus
	My work will consider the Health Board's overall corporate approach to applying the 'Sustainable Development Principle' and 'Five Ways of Working'. My team will also seek to examine one of the Health Board's well-being objectives in more detail, reviewing the steps that have been taken to achieve that objective. When selecting which well-being objectives to review, I will aim to do so in such a way that maximises my ability to compare and contrast approaches across NHS bodies.
<b>Locally focused work</b>	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 reflected in the regular updates that are produced for the Committee.
<b>Implementing previous audit recommendations</b>	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.

- 15 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 2](#).

## Fee, audit team and timetable

### Fee

- 16 Your estimated fee for 2019 is set out in [Exhibit 4](#), alongside the actual fee for 2018. My audit team has been able to make efficiency savings on the financial audit work carried out in 2018, which will result in a £10,000 refund for the Health Board. My estimated fee for 2019 represents a 2% decrease compared to the fee set out in the 2018 annual audit plan.
- 17 There have been some small changes to my fees rates for 2019, however my audit teams will continue to drive efficiency in their audits to ensure any resulting increases will not be passed onto you.

#### Exhibit 4: audit fee

Audit area	Estimated fee 2019 (£) <sup>4</sup>	Estimated fee 2018 (£)
<b>Financial accounts work</b>	<b>245,431</b>	<b>250,431<sup>5</sup></b>
<b>Performance audit work:</b>		
• Structured Assessment	81,613	76,330
• All-Wales thematic reviews <sup>6</sup>	67,202	71,512
• Local projects	17,561	18,534
<b>Performance audit work total</b>	<b>166,376</b>	<b>166,376</b>
<b>Total fee</b>	<b>411,807</b>	<b>416,807</b>

18 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 Director of Finance.

19 [Further information on my fee scales and fee setting can be found on our website.](#)

#### Audit team

20 **Exhibit 5** lists the key members of my local audit team, and their contact details.

#### Exhibit 5: my local audit team

Name	Role	Contact number	E-mail address
Dave Thomas*	Engagement Lead – Performance Audit	02920 320604 07798 503064	<a href="mailto:dave.thomas@audit.wales">dave.thomas@audit.wales</a>
Ann-Marie Harkin	Engagement Lead – Financial Audit	02920 320562 07967 321350	<a href="mailto:ann-marie.harkin@audit.wales">ann-marie.harkin@audit.wales</a>
Carol Moseley	Performance Audit Manager	02920 829302 07771 943265	<a href="mailto:carol.moseley@audit.wales">carol.moseley@audit.wales</a>
Jason Blewitt	Financial Audit Manager	02920 829300 07970 737478	<a href="mailto:jason.blewitt@audit.wales">jason.blewitt@audit.wales</a>
Julie Owens	Financial Audit Team Leader	02920 829300 07581 499092	<a href="mailto:julie.owens@audit.wales">julie.owens@audit.wales</a>

<sup>4</sup> Fees shown in this document are exclusive of VAT, which is no longer charged to you.

<sup>5</sup> The actual fee for 2018 is £240,431, and reflects a £10,000 refund (paragraph 16).

<sup>6</sup> As detailed in the respective audit plans.

\*Engagement Director for the Health Board.

- 21 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.

## Staff secondment

- 22 Two members of staff employed by the Wales Audit Office have been seconded to the Health Board. The first is a trainee accountant seconded as part of an initiative funded by the Welsh Consolidated Fund designed to allow trainee accountants to broaden their skills and to gain experience of working across different parts of the Welsh public sector. The trainee is seconded to the Health Board for the period September 2018 to June 2019. The second secondment is to the post of Project Manager Financial Implications of Bridgend Boundary Change reporting to the Assistant Director of Finance (Strategic Planning and Service) and is for the period July 2018 to July 2019.
- 23 In order to safeguard against any potential threats to auditor independence and objectivity, the Wales Audit Office and the Health Board have agreed the following arrangements:
- secondees will not perform duties prohibited by the FRC's Revised Ethical Standard 2016 and will not be able to exercise discretionary authority to commit the Health Board to a particular position or accounting treatment;
  - the secondees will be properly supervised and will not be involved in the decision taking of the Health Board; and
  - the secondment will be for a short period of time within the meaning of the FRC's Revised Ethical Standard 2016.

## Timetable

- 24 I will provide reports, or other outputs as agreed, to the Health Board covering the areas of work identified in this document. Key milestones are set out in **Exhibit 6**.

### Exhibit 6: timetable

Planned output	Work undertaken	Report finalised
2019 Audit Plan	December 2018 to February 2019	February/March 2019
Financial accounts work: <ul style="list-style-type: none"><li>• Audit of Financial Statements</li><li>• Opinion on Financial Statements</li><li>• Financial Accounts Memorandum</li></ul>	January to June 2019	June 2019 June 2019 July 2019

Planned output	Work undertaken	Report finalised
Performance work: <ul style="list-style-type: none"> <li>• Structured Assessment</li> <li>• Governance arrangements underpinning quality and safety committees</li> <li>• Implementing the Well Being of Future Generations Act</li> <li>• Local project work</li> </ul>	Timescales for individual projects will be discussed with the Health Board and detailed within the specific project briefings produced for each study.	
Annual Audit Report for 2019	November to December 2019	December 2019
2020 Audit Plan	December 2019 to February 2020	March 2020

## Future developments to my audit work

- 25 Details of other future developments, including forthcoming changes to key International Financial Reporting Standards (IFRS), future changes to UK Generally Accepted Accounting Practice (UK GAAP) for charitable funds, the Wales Audit Office's Good Practice Exchange seminars and my planned work on the readiness of the Welsh public sector for Brexit, are set out in [Appendix 3](#). This appendix also contains relevant information on data protection legislation.

# 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

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

Exhibit 7: 2018 performance audit work still in progress

Performance audit project	Status	Comment
Clinical Coding (all-Wales follow up audit)	Fieldwork concluded	Draft report expected March 2019
Consultant Contract <sup>7</sup> (local follow up audit)	Scoping	Draft report expected June 2019
Orthopaedic Services (all-Wales follow up audit)	Scoping	Draft report expected October 2019

<sup>7</sup> The follow-up of consultant contract substitutes a local waiting times follow-up audit.

# Appendix 3

## Other future developments

### Forthcoming key IFRS changes

Exhibit 8: changes to IFRS standards

Standard	Effective date	Further details
IFRS 16 Leases	Expected in 2020-21	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 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 accounts)

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, 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. [Further information, including details of forthcoming GPX events and outputs from past seminars.](#)



## Brexit: preparations for the United Kingdom's departure from membership of the European Union

In accordance with Article 50 of the Treaty of Rome, on 29 March 2019 the United Kingdom will cease to be a member of the European Union. Negotiations are continuing, and it currently remains unclear whether agreement will be reached on a transition period to 31 December 2020, or whether a 'no deal' immediate exit will take place next March.

The Auditor General has commenced a programme of work looking at the arrangements that the devolved public sector in Wales, including all NHS bodies, is putting in place to prepare for, and respond to, Britain's exit from the European Union. This will take the form of a high-level overview to establish what is being put in place across the Welsh public sector, and what the key issues are from the perspectives of different parts of the Welsh public service.

The Auditor General intends to carry out this initial work in two tranches. In autumn 2018, he issued a call for evidence to compile a baseline summary of arrangements being put in place. On 19 February 2019, the Auditor General issued a report<sup>8</sup> on preparations in Wales for a 'no deal' Brexit. This will be followed up by further audit fieldwork during the rest of 2019.

## Data Protection Legislation

Data protection legislation, including the Data Protection Act 2018 (DPA) and the General Data Protection Regulation (GDPR) has introduced updated requirements for processing personal data. The Auditor General for Wales' (AGW's) access rights are not affected by the new data protection legislation or the Digital Economy Act, which also grants data sharing powers. Information about the AGW's access rights is available in the Guide to Legislation, as well as the shorter Access Rights leaflet which can be found on our website.

Fair Processing (Privacy) Notices provided to your employees, contractors and service users should include reference to the collecting and sharing of data with the AGW in connection with his audit work and studies. Our own general fair processing notice is available on our website and, where appropriate, we shall provide further fair processing notices in connection with our work.

Where it is necessary to transfer information, we ask that this is done securely, through suitable methods such as hand to hand transfer of data using memory sticks or other secure means. We can accept password protected files if the password protection is strong, and the password is communicated to us separately and by a different means to the information, such as SMS text message. If you would like to discuss any of the matters raised above, our Data Protection Officer can be contacted at

[martin.peters@audit.wales](mailto:martin.peters@audit.wales)

<sup>8</sup> [Preparations in Wales for a 'no deal' Brexit](#)

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