



WALES AUDIT OFFICE
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Auditor General for Wales

2020 Audit Plan – Swansea Bay University Health Board

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This document has been prepared as part of work performed in accordance with statutory functions.
Further information on this is provided in in Appendix 1.

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This document was produced by Dave Thomas, Mike Usher, Carol Moseley and Jason Blewitt on behalf of the Auditor General for Wales.

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2020 Audit Plan

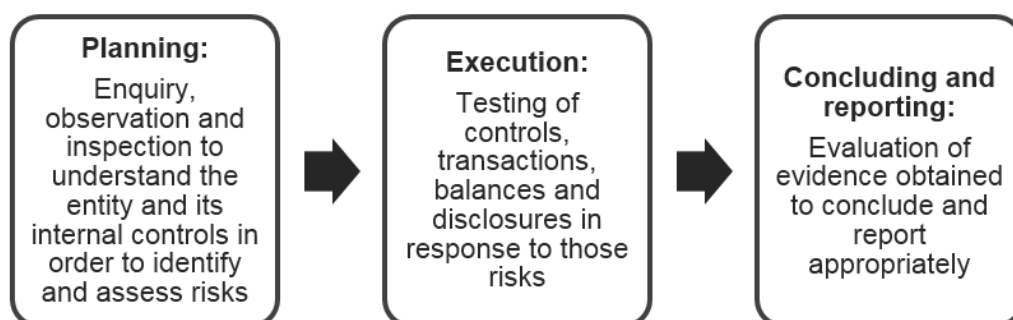
Summary

- 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 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



- 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
Significant risks	
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.

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 £11.1m and a forecast year-end deficit of £12.3m. This combined with the outturns for 2017-18 and 2018-19, predicts a three-year deficit position.</p> <p>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 most recent monitoring return notes an increase in the number of claims 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>Bridgend Boundary Transfer</p> <p>From 1 April 2019, the responsibility for providing healthcare services for people in the Bridgend County Borough Council area moved from Abertawe Bro Morgannwg University Health Board (ABM UHB) to Cwm Taf University Health Board (CT UHB). The financial statements will need to disclose this change from 1 April 2019.</p> <p>In addition, the Health Board has lost a number of key staff as part of the transfer which has placed additional</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
pressures on the remaining staff, increasing the risk that the Health Board may not produce its 2019-20 financial statements by the required deadlines.	
On 18 December 2019 the First Minister issued a formal Ministerial Direction to the Permanent Secretary requiring her to implement a 'scheme pays' initiative in respect of the NHS pension tax arrangements for clinical staff.	We are considering the accounting treatment and audit implications of the direction (the first in Wales since 1999) in conjunction with the NAO who are currently addressing the same issue in NHS England.
New accounting standards IFRS 16 will replace the current leases standard IAS 17 in 2020-21 and may pose implementation risks. 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.	My team will undertake some early work to review preparedness for the introduction of IFRS 16 Leases. See Appendix 3 Exhibit 8 for more detail.

- 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, we will 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.
- 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 document¹;
 - 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 the Health Board's charitable funds accounts. The audit will be undertaken in accordance with the timescales agreed with the 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 well as consideration of issues and risks that are specific to the Board. I have also taken account of the work programme of Healthcare Inspectorate Wales (HIW)^{2 3}.
- 14 The topics I plan to examine as part of my 2020 performance audit work are summarised in **Exhibit 3**.

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

² An operational protocol between HIW and the Auditor General sets out how the two organisations will work together, March 2015

³ 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

Exhibit 3: contents of my 2020 performance audit work programme

Theme	Approach/key areas of focus
NHS Structured Assessment	<p>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.</p> <p>I also plan to use my structured assessment work to maintain a high-level view on how well each NHS body is embedding their statutory requirements under the Well-being of Future Generations (Wales) Act 2015 into corporate arrangements.</p>
All Wales Thematic Reviews	<p>Unscheduled care arrangements</p> <p>During 2020 I plan to scope and roll out a thematic review which will examine different aspects of the unscheduled care system. This work will include analysis of national data sets to present a high-level picture of how the unscheduled care system is currently working. This data analysis will help me to determine which aspects of the unscheduled care system I will then focus on during the remainder of 2020.</p> <p>Where relevant, my work will also seek to examine the progress made in responding to my previous recommendations relating to unscheduled care, including GP out-of-hours and Emergency Ambulance Services Commissioning (EASC).</p> <p>Welsh Health Specialised Services Committee (WHSSC)</p> <p>I also plan to use an element of the 2020 audit fee to undertake a review of WHSSC. This work will use aspects of my structured assessment methodology to examine the governance arrangements of WHSSC.</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/other committee.</p>
Implementing previous audit recommendations	<p>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.</p>

- 15 In addition to my Structured Assessment work, where my broader programme as set out in [Exhibit 3](#) allows me to do so, I may take opportunities to make comments on the Health Board's application of the sustainable development principle⁴ as set out in the Well-being of Future Generations (Wales) Act 2015. Where this is identified, my audit team will raise with the relevant Health Board lead.
- 16 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

- 17 Your estimated fee for 2020 is set out in [Exhibit 4](#). My fee rates for 2020 have increased overall by 3%. However, my audit teams will continue to drive efficiency in their audits to ensure fee increases are not passed onto you.
- 18 My audit team has been able to make efficiency savings on the financial audit work carried out in 2019, resulting in a £9,200 refund for the Health Board on the 2019 proposed fee. My total estimated fee for 2020 represents a £20,000 decrease (5%) on the fee set out in the 2019 annual audit plan.

Exhibit 4: audit fee

Audit area	Proposed fee for 2020 (£) ⁵	Proposed fee for 2019 (£)
Financial accounts work	225,431	245,431 ⁶
Performance audit work:		
• Structured Assessment	62,076	81,613
• All-Wales thematic reviews ⁷	71,250	67,202
• Local projects	33,050	17,561
Performance audit work total	166,376	166,376
Total fee	391,807	411,807

⁴ The Act defines the sustainable development (SD) principle as acting in a manner: '...which seeks to ensure that the needs of the present are met without compromising the ability of future generations to meet their own needs'.

⁵ The fees shown in this document are exclusive of VAT, which is no longer charged to you.

⁶ The actual fee for 2019 is £236,231 and reflects a £9,200 refund (paragraph 18).

⁷ As detailed in the respective audit plans.

- 19 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.
- 20 Further information on my fee scales and fee setting can be found on our website.

Audit team

- 21 The main members of my local audit team, together with their contact details, are summarised in **Exhibit 5**.

Exhibit 5: my local audit team

Name	Role	Contact number	E-mail address
Dave Thomas*	Engagement Director	02920 320604 07798 503064	dave.thomas@audit.wales
Mike Usher	Director with responsibility for financial audit work	02920 320573	mike.usher@audit.wales
Carol Moseley	Audit Manager (performance audit)	02920 829302 07771 943265	carol.moseley@audit.wales
Jason Blewitt	Audit Manager (financial audit)	02920 829300 07970 737478	jason.blewitt@audit.wales
Daniel King	Audit Lead (financial audit)	02920 829300	daniel.king@audit.wales

- 22 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

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

Exhibit 6: timetable

Planned output	Work undertaken	Report finalised
2020 Audit Plan	December 2019 to January 2020	February / March 2020

Planned output	Work undertaken	Report finalised
Financial accounts work: <ul style="list-style-type: none"> • Audit of Financial Statements Report • Opinion on Financial Statements • Financial Accounts Memorandum 	January to June 2020	June 2020 June 2020 July 2020
Performance work: <ul style="list-style-type: none"> • Structured Assessment • Unscheduled Care • WHSSC • 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 2020	October to November 2020	December 2020
2021 Audit Plan	December 2020 to January 2021	February / March 2021

Future developments to my audit work

- 24 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 work on the readiness of the Welsh public sector for Brexit, are set out in [Appendix 3](#).

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: Performance audit work still in progress

Performance audit project	Status	Comment
Orthopaedic Services (Follow up)	Reporting	Local reports for health boards setting out progress against the issues the Auditor General originally identified in 2015 will be issued during February. A national summary report will also be published in Spring 2020.
Quality Governance arrangements	Set Up	Scoping of this work has been informed by the Joint Review of Quality Governance at Cwm Taf Morgannwg UHB. Wider work across Wales will be undertaken in close collaboration with Healthcare Inspectorate Wales and will be undertaken during Spring and early Summer 2020.
Local audit – audit time reserved to respond to any post Bridgend transition issues or risks ⁸	Scoping	I intend to undertake work looking at the service level agreements and long-term agreements between Cwm Taf Morgannwg University Health Board and Swansea Bay University Health Board for the provision of services following the merger of Bridgend into the Cwm Taf boundary.

⁸Initial work to examine short-term and long-term agreements (STAs and LTAs) arising from the Bridgend transfer had been planned for 2019. Timing of this work was dependent on the arrangements being established. In discussion with Internal Audit we deferred our work while Internal Audit considered the arrangements being put in place.

Appendix 3

Other future developments

Forthcoming key IFRS changes

Exhibit 8: changes to IFRS standards

Standard	Effective date	Further details
IFRS 16 Leases	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.
IFRS 17 Insurance Contracts	2021-22 at earliest	<p>IFRS 17 replaces IFRS 4 <i>Insurance Contracts</i>, which permitted a variety of accounting practices resulting in accounting diversity and a lack of transparency about the generation and recognition of profits. IFRS 17 addresses such issues by requiring a current measurement model, using updated information on obligations and risks, and requiring service results to be presented separately from finance income or expense.</p> <p>It applies to all insurance contracts issued, irrespective of the type of entity issuing the contracts, so not relevant only for insurance companies. Entities will need to consider carefully whether any contractual obligations entered into meet the definition of an insurance contract. If that is the case, entities will need to determine whether they are covered by any of IFRS 17's specific scope exclusions.</p>

Future changes to UK GAAP: applicable to 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 are only limited changes to FRS 102 in 2019-20.

More significant amendments are expected from 2022-23, reflecting recent changes in International Financial Reporting Standards, including accounting for financial instruments 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 online. [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

The Auditor General has reported on preparations in Wales for a 'no-deal Brexit', publishing a report in February 2019 and a follow-up letter to the External Affairs and Additional Legislation Committee in September 2019. At the time of reporting, there was a possibility that the UK would leave the EU without a Withdrawal Agreement in place (the no-deal scenario), which would potentially have had significant consequences for Welsh public services and the wider economy and society.

Following the general election, the United Kingdom will leave membership of the European Union on 31 January 2020 under the terms of the Withdrawal Agreement concluded between the EU and UK in October 2019. The next phase will involve negotiating and agreeing the future relationship between the UK and EU.

There will be a transition period to 31 December 2020, during which the UK will continue to participate in EU programmes and follow EU regulations. The Withdrawal Agreement provides for the transition period to be extended by up to two years, with the agreement of the UK and EU. The deadline for agreeing to extend the transition is 31 June 2020. The UK Government has said that it does not intend to extend the transition period.

Despite there being an agreement on the terms of withdrawal, there remain some significant uncertainties:

- Given the very tight timetable for reaching agreement, there is a possibility of the UK leaving the transition period at the end of 2020 without an agreement about the future relationship in place. In this scenario many of the issues previously

identified around a 'no-deal Brexit', such as disruption to supply chains, would arise again.

- The UK Government's position of seeking a future relationship based on a free trade agreement (rather than a closer relationship aligned to the single market) has implications that are not yet clear but which create opportunities and risks for Wales' economy, society and environment.
- There are also significant unresolved constitutional questions around how powers in areas where devolved governments were directly applying EU law, such as regional development and agriculture, will be exercised across the UK after the transition period.

In light of these uncertainties, the Auditor General will continue to keep a watching brief over developments and will make a decision later in the year as to what, if any, further work is required to look at public bodies' preparations for either a new relationship or a no-trade deal exit from the transition period.

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