



WALES AUDIT OFFICE  
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Auditor General for Wales

# Audit of Financial Statements Report – Abertawe Bro Morgannwg University Local Health Board

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We welcome correspondence and telephone calls in Welsh and English. Corresponding in Welsh will not lead to delay. Rydym yn croesawu gohebiaeth a galwadau ffôn yn Gymraeg a Saesneg. Ni fydd gohebu yn Gymraeg yn arwain at oedi.

The team who delivered the work comprised Ann-Marie Harkin, Geraint Norman, Jason Blewitt and the Abertawe Bro Morgannwg University Local Health Board audit team.

# Contents

The Auditor General intends to issue a qualified audit report on your 2016-17 financial statements and this will be supported by a substantive report. There are some issues to report to you prior to the Board's approval of the financial statements.

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# Summary report

## Introduction

- 1 The Auditor General is responsible for providing an opinion on whether the financial statements give a true and fair view of the financial position of Abertawe Bro Morgannwg University Local Health Board (the Health Board) at 31 March 2017 and its income and expenditure for the year then ended.
- 2 We do not try to obtain absolute assurance that the financial statements are correctly stated, but adopt the concept of materiality. In planning and conducting the audit, we seek to identify material misstatements in your financial statements, namely, those that might result in a reader of the accounts being misled.
- 3 The quantitative levels at which we judge such misstatements to be material for the Health Board is £13.4 million. Whether an item is judged to be material can also be affected by certain qualitative issues such as legal and regulatory requirements and political sensitivity.
- 4 International Standard on Auditing (ISA) 260 requires us to report certain matters arising from the audit of the financial statements to those charged with governance of a body in sufficient time to enable appropriate action.
- 5 This report sets out for consideration the matters arising from the audit of the financial statements of the Health Board, for 2016-17, that require reporting under ISA 260.

## Status of the audit

- 6 We received the draft financial statements for the year ended 31 March 2017 in line with the Welsh Government's agreed timetable and have now substantially completed the bulk of our audit work.
- 7 We are reporting to you the more significant issues arising from the audit, which we believe you must consider prior to approval of the financial statements. The audit team has already discussed these issues with the Acting Director of Finance and his team.

## Proposed audit report

- 8 It is the Auditor General's intention to issue a qualified audit report on the financial statements once you have provided us with a Letter of Representation based on that set out in [Appendix 1](#).
- 9 The proposed audit report is set out in [Appendix 2](#). The Auditor General will be issuing a substantive report alongside his audit report (also set out in [Appendix 2](#)). The report explains the two financial duties applicable from 2014-15, the performance of the Health Board against them to date and the implications for 2016-17.

## Significant issues arising from the audit

### Uncorrected misstatements

- 10 Due to the statutory duty to meet an aggregated three year resource limit (see [Appendix 2](#)), from 2014-15 we collate uncorrected misstatements from the audits of years 1, 2 and 3 and consider their cumulative impact on the Health Board's performance against the duty when it is measured at year 3. Where the net effect of the uncorrected misstatements over the three-year period would cause the Health Board to fail its aggregated resource limit and therefore receive a qualified regularity opinion, those misstatements are considered material by nature and are taken into account when assessing the Health Board's performance against this duty. For this reason we would recommend that all uncorrected misstatements which could impact on the performance against resource limit are amended in-year.
- 11 The Health Board shares financial risks relating to the Welsh Health Specialised Services Committee (WHSSC) with all Welsh local health boards. The audit of the financial information relating to this has identified that no amendments are required to the Health Board's financial statements as a result of this.
- 12 There are no misstatements identified from the audit of the 2016-17 financial statements which remain uncorrected. This was also the case for our 2014-15 and 2015-16 audits.

### Corrected misstatements

- 13 There are 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. They are set out with explanations in [Appendix 3](#). The amendments to the financial statements are minor by nature and there is no impact on the Health Board's net expenditure.

### Other significant issues arising from the audit

- 14 In the course of the audit we consider a number of matters both qualitative and quantitative relating to the accounts and report any significant issues arising to you. There were some issues arising in these areas this year:

**We have no significant concerns about the qualitative aspects of your accounting practices and financial reporting**

- 15 We found the information provided by the Health Board to be relevant, reliable, comparable, material and easy to understand. The Health Board has high quality working papers and quality assurance processes over the financial statements. We concluded that accounting policies and estimates are appropriate and financial statement disclosures unbiased, fair and clear.
- 16 As in all financial years, there are a number of significant estimates made at the year-end when the financial statements are prepared. These and our conclusions are as follows:

<b>Significant estimates</b>	<b>Assessment and conclusion</b>
Primary care accruals for year-end expenditure (eg enhanced services, prescribing and dental)	Processes and estimates are assessed as reasonable. This also forms part of the monthly financial reporting processes.
Other health care providers accrual for year-end costs	Agreement with all Welsh health care providers is collated and arbitrated through the Welsh Government matrix of transactions and balances. These processes and estimates are robust.
Clinical negligence and personal injury claims	Estimates are reasonable – they are based on the Welsh Risk Pool’s assessment and these processes are robust.
Retrospective continuing health care claims	The estimate and methodology for assessing the level of provision are reasonable.

**We did not encounter any significant difficulties during the audit**

- 17 There were no significant difficulties during the audit. We received information in a timely and helpful manner and were not restricted in our work. Early discussion with Finance staff on proposed methodologies and treatments of subjective account areas, and the financial statements presentation to the Audit Committee meeting in May 2017 were again particularly useful. The deadlines for submission are challenging and we would like to commend the Health Board’s Finance team for the timing and quality of their work. The constructive but independent working relationships with the Finance team have continued again this year.

**There were no significant matters discussed and corresponded upon with management which we need to report to you beyond those set out in the substantive report**

- 18 The Auditor General’s substantive report in [Appendix 2](#) outlines the changes to 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 2016-17 to 2018-19. The report also identifies that for 2016-17,

the Health Board did not meet its revenue resource allocation over the three-year period.

**There are no other matters significant to the oversight of the financial reporting process that we need to report to you**

- 19 The Health Board is required to prepare and include in its financial statements an Annual Governance Statement which sets out the Health Board's governance structures, systems of internal control and risk management and the effectiveness of these systems in operation during the year. We reviewed the Statement to consider its consistency with Manual for Accounts requirements and with other information known to us from our audit work. We identified a number of narrative and presentation adjustments, which have been reflected in the final Statement, and we will continue to work with management to further develop the Statement in future years.
- 20 There are no other matters significant to the oversight of the financial reporting process that we need to report to you.

**We did not identify any material weaknesses in your internal controls but we have identified some areas for improvement**

- 21 We have not identified any matters which are material to the accuracy and completeness of the financial statements. We have identified a number of areas for improvement as set out below.

Area of concern	Assessment and action required
Deferred income	<p>In 2015-16, the financial statements were amended to move £5.9 million from Accruals to Deferred Income to reflect the correct classification of Research and Development (R&amp;D) income received but not yet spent.</p> <p>In 2016-17, the Health Board has released £5.9 million from Deferred Income to the Statement of Comprehensive Net Expenditure (SOCNE) and recorded £2.3 million in Accruals (Note 16). The Health Board informs us that this is for specific projects arising as a result of underspends and/or surpluses made on previously completed R&amp;D projects together with ongoing commitments against existing projects.</p> <p>However, for the £2.3 million there is no clear audit trail to confirm whether or not there is an obligation to repay some of these underspends back to the original funder or that the funder has agreed that these surpluses can be retained and utilised by the Health Board.</p> <p>We are therefore unable to confirm that the classification of this income carried forward as an accrual is accurate as opposed to being treated as deferred income. If there is an obligation to repay these monies then this should be treated as accruals but if the Health Board is allowed to retain and invest these monies then this should be treated as deferred income and released to the SOCNE as the expenditure is incurred.</p> <p>In 2017-18, the Health Board needs to review its procedures to ensure that underspends or surpluses for future projects are accounted for correctly.</p>
Continuing Health Care (CHC) Learning Disabilities	<p>A number of CHC Learning Disabilities cases have not been subject to an annual review despite this issue being raised in last year's ISA 260 Report. The Welsh Government CHC Framework requires an initial review of each claim within three months of receipt and at least an annual review thereafter.</p> <p>Whilst there has been efforts made to address this issue, as at 31 March 2017, 41 CHC Learning Disability cases (approximately £2.3 million) had not been reviewed. As a result, these cases will not have been reviewed in two years.</p> <p>There is a risk that these cases have not been adequately assessed to confirm continuing eligibility for care and the costs associated with this.</p>
Continuing Healthcare Ombudsman Cases (Phase 3)	<p>The Health Board has received some 200 Phase 3 Continuing Health Care Ombudsman claims. These claims were originally received in 2014-15 and were treated as Contingent Liabilities given the significant uncertainty around their eligibility and the financial consequences. Progress assessing these claims has been very slow with responsibility for assessing them sitting with Powys Local Health Board. These cases are again treated as a Contingent Liability in the 2016-17 financial statements.</p> <p>These cases are likely to have a significant financial consequence when they are assessed in 2017-18. The Health Board therefore needs to ensure that Powys Local Health Board assesses these claims in 2017-18.</p>

Area of concern	Assessment and action required
Departures of senior staff	<p>As set out in the financial statements, a settlement agreement was agreed with the Chief Executive in 2016-17. We have reported the following governance concerns to the Health Board:</p> <ul style="list-style-type: none"> <li>• there is confusion across Wales as to what disciplinary procedures apply to Chief Executives.</li> <li>• the Health Board needs to ensure reports to the Remuneration &amp; Terms of Service Committee (R&amp;TSC) are comprehensive and allow the R&amp;TSC sufficient time to consider them. In particular, the reports need to be clear regarding the legal powers and regulations the Health Board is using to incur this type of expenditure.</li> </ul> <p>We also identified that £53,452 of the settlement to the Chief Executive was paid early in error by Payroll Services – it was paid as part of the February payroll, a week before the settlement agreement was signed on 7 March 2017.</p> <p>The Health Board therefore needs to update its governance arrangements for these issues.</p>

There are no other matters specifically required by auditing standards to be communicated to those charged with governance

22 There are no other matters (such as those relating to fraud, compliance with laws and regulations, or subsequent events) that we need to report to you.

## Independence and objectivity

23 As part of the finalisation process, we are required to provide you with representations concerning our independence.

24 We have complied with ethical standards and in our professional judgment, we are independent and our objectivity is not compromised. There are no relationships between the Wales Audit Office and the Health Board that we consider to bear on our objectivity and independence.

# Appendix 1

## Final Letter of Representation

Auditor General for Wales

Wales Audit Office

24 Cathedral Road

Cardiff

CF11 9LJ

31 May 2017

## Representations regarding the 2016-17 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 Abertawe Bro Morgannwg LHB for the year ended 31 March 2017 for the purpose of expressing an opinion on their truth and fairness and 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 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 statements 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.

All contingent liabilities have been identified and properly assessed. Contingent liabilities are considered to be not material to the financial statements.

The financial statements are free of material misstatements, including omissions. The effects of uncorrected misstatements identified during the audit are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

## 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 the company maintains 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 Board on 31 May 2017.

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:

[Officer who signs on behalf of management]

31 May 2017

Signed by:

[Officer or Member who signs on behalf of those charged with governance]

# Appendix 2

## Proposed audit certificate and report of the Auditor General

### **The Certificate of the Auditor General for Wales to the National Assembly for Wales**

I certify that I have audited the financial statements of Abertawe Bro Morgannwg University Local Health Board for the year ended 31 March 2017 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. 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). I have also audited the information in the Remuneration Report that is described as having been audited.

### **Respective responsibilities of Directors, the Chief Executive and the Auditor**

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.

My responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Financial Reporting Council's Ethical Standards for Auditors.

### **Scope of the audit of financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Abertawe Bro Morgannwg University Local Health Board's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors and Chief Executive; and the overall presentation of the financial statements.

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

In addition, I read all the financial and non-financial information in the Foreword and Accountability Report with the financial statements 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.

### **Opinion on financial statements**

In my opinion the financial statements:

- give a true and fair view of the state of affairs of Abertawe Bro Morgannwg University Local Health Board at 31 March 2017 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.

### **Basis for Qualified Opinion on Regularity**

Abertawe Bro Morgannwg University Local Health Board has breached its resource limit by spending £39 million over the £3,052 million that it was authorised to spend in the three year period 2014-15 to 2016-17. 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 £39 million explained in the paragraph above, in all material respects, the expenditure and income have been applied to the purposes intended by the National Assembly for Wales and the financial transactions conform to the authorities which govern them.

### **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; and
- the information contained in Foreword and Accountability Report is consistent with the financial statements.

### **Matters on which I report by exception**

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

- the Annual Governance Statement does not reflect compliance with HM Treasury's and Welsh Ministers' guidance;
- 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 attached.

Huw Vaughan Thomas  
Auditor General for Wales

24 Cathedral Road  
Cardiff  
CF11 9LJ

8 June 2017

# Appendix 3

## Report of the Auditor General to the National Assembly for Wales

### Introduction

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

For 2016-17, Abertawe Bro Morgannwg 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 first three-year period under this duty is 2014-15 to 2016-17, and so it is measured this year for the first time.

As shown in Note 2.1 to the Financial Statements, the LHB did not manage its revenue expenditure within its resource allocation over the three-year period – the cumulative revenue resource limit of £3,052 million over the three years was exceeded by £39 million.

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 2016-17 if it submitted a 2016-17 to 2018-19 plan approved by its Board to the Welsh Ministers who then approved it by 30 June 2016.

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 2016-17 to 2018-19.

Huw Vaughan Thomas  
Auditor General for Wales

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# Appendix 4

## Summary of corrections and amendments made to the draft financial statements

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.

### Nature and value of correction

We have not made any material amendments to the financial statements. We have however made a number of significant amendments:

- Note 3.1 and Note 3.3 were amended to reclassify £3.5 million of national non-domestic rates rebate which related to GPs' premises which had been incorrectly netted off Note 3.3 (Expenditure on Hospital and Community Health Services) instead of Note 3.1 (Expenditure on Primary Healthcare Services). Given the amount is significant a footnote was also included.
- A footnote was added to Note 3.3 (Expenditure on Hospital and Community Health Services) to specify that a 'one-off' £1 million of PFI credit to expenditure was received in the year.
- Note 17 (Provisions) was amended to move £1.8 million of provisions from 'Non-Current' to 'Current' to apportion the revised discount rate in the year. This was raised as an all-Wales issue after submission of the draft financial statements.
- Note 18 (Contingencies) was amended to include an additional disclosure for the potential claims arising from the cost of nursing care provided by independent care homes. This was raised as an all-Wales issue after submission of the draft financial statements.

We have also made a number of minor amendments to the financial statements. We have not listed all of these items as they relate to either revisions in disclosures of information, narrative changes, reclassifications between headings, or the amounts involved are trivial.

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