



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

Archwilydd Cyffredinol Cymru
Auditor General for Wales

Audit of Financial Statements Report – **Cwm Taf University Health Board**

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The Auditor General intends to issue an unqualified audit report on your financial statements. There are no issues to report to you prior to their approval.

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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 Cwm Taf University Health Board (the Health Board) at 31 March 2019 and its income and expenditure for the year then ended.
- 2 As the financial statements only cover the period to 31 March 2019, they and our audit opinion do not relate to Cwm Taf Morgannwg University Health Board, which came into existence on 1 April 2019.
- 3 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.
- 4 The quantitative level at which we judge such misstatements to be material for the Health Board is £7.25 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 (examples of such areas from this audit include the remuneration report and related party disclosures).
- 5 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.
- 6 This report sets out the matters arising from the audit of the financial statements of the Health Board, for 2018-19, that require reporting under ISA 260.

Status of the audit

- 7 We received the draft financial statements for the year ended 31 March 2019 in line with the agreed deadline of 26 April 2019 and have now substantially completed the audit work, subject to one matter outstanding where we are awaiting further information. We will provide an update on this matter verbally at the Committee meeting.
- 8 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 Director of Finance, his officers and the Interim Board Secretary.

Proposed audit report

- 9 It is the Auditor General's intention to issue an unqualified audit report on the financial statements once you have provided us with a Letter of Representation based on that set out in [Appendix 1](#).
- 10 The proposed audit report is set out in [Appendix 2](#).

Significant issues arising from the audit

Uncorrected misstatements

- 11 There are no misstatements identified in the financial statements, which remain uncorrected.

The effect of uncorrected misstatements on the Health Board's statutory duty

- 12 In line with auditing standards, we are required to report to you any uncorrected misstatements above our trivial threshold of 5% of materiality.
- 13 However, due to the Health Board's statutory duty to meet an aggregated three-year resource limit, we have collated all uncorrected misstatements from the audits of 2016-17, 2017-18 and 2018-19 (even if below our trivial threshold), and considered their cumulative impact on the Health Board's performance against this duty at the end of 2018-19:
- In 2018-19 there are four trivial uncorrected misstatements which, if corrected, would increase the Health Board's underspend against its revenue allocation by £19,000.
 - In 2017-18 there are four trivial uncorrected misstatements which, if corrected, would increase the Health Board's underspend against its revenue allocation by £46,000.
 - In 2016-17 there were three trivial uncorrected misstatements, which due to their nature do not affect the cumulative underspend by the Health Board against its revenue allocation
- 14 If these trivial misstatements were to be corrected, the Health Board would still meet its financial duties over the three-year period 2016-17 to 2018-19. Having made an underspend against its aggregated resource limit of £57,000 in its draft accounts, the above corrections would increase its underspend to £122,000.

Corrected misstatements

- 15 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](#).

Other significant issues arising from the audit

- 16 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 no issues arising in these areas this year:

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

We found the information provided to be relevant, reliable, comparable, material and easy to understand. We concluded that accounting policies and estimates are appropriate and financial statement disclosures unbiased, fair and clear.

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

We received information in a timely and helpful manner and were not restricted in our work. The deadlines for submission of the accounts and relevant parts of the Annual Report remain challenging and we would like to commend the Finance team and the wider Health Board for the timing and quality of their work. The constructive working relationships with the Board Secretary, Director of Finance and the whole finance team have continued this year.

- **There were no significant matters discussed and corresponded upon with management which we need to report to you.**
- **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.**
- **There not any other matters specifically required by auditing standards to be communicated to those charged with governance.**

Recommendations arising from our 2018-19 financial audit work

- 17 Any recommendations arising from our financial audit work will be separately reported to you in a Management Letter, which will be presented to the Audit Committee at a later date.

Independence and objectivity

- 18 As part of the finalisation process, we are required to provide you with representations concerning our independence.
- 19 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

[Audited body's letterhead]

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

30 May 2019

Representations regarding the 2018-19 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 Cwm Taf University Health Board (the Health Board) for the year ended 31 March 2019 for the purpose of expressing an opinion on their truth and fairness, their proper preparation and the regularity of income and expenditure.

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

Management representations

Responsibilities

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

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

Information provided

We have provided you with:

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

Financial statement representations

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

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

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

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

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

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

The financial statements are free of material misstatements, including omissions. 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 the Board

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

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 30 May 2019.

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

Signed by:

Chief Executive (Accountable Officer)

Date: 30 May 2019

Signed by:

Chair of the Board

Date: 30 May 2019

Appendix 2

Proposed audit report of the Auditor General to the National Assembly for Wales

The Certificate and independent auditor's report of the Auditor General for Wales to the National Assembly for Wales

Report on the audit of the financial statements

Opinion

I certify that I have audited the financial statements of Cwm Taf University Health Board for the year ended 31 March 2019 under Section 61 of the Public Audit (Wales) Act 2004. These comprise the Statement of Comprehensive Net Expenditure, the Statement of Financial Position, the Cash Flow Statement and Statement of Changes in Tax Payers Equity and related notes, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and HM Treasury's Financial Reporting Manual based on International Financial Reporting Standards (IFRSs).

In my opinion the financial statements:

- give a true and fair view of the state of affairs of Cwm Taf University Health Board as at 31 March 2019 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 opinion

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

Conclusions relating to going concern

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

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or

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

Other information

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

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

Opinion on regularity

In my opinion, in all material respects, the expenditure and income in the financial statements have been applied to the purposes intended by the National Assembly for Wales and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Report on other requirements

Opinion on other matters

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

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

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

Matters on which I report by exception

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

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

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

Report

I have no observations to make on these financial statements.

Responsibilities

Responsibilities of Directors and the Chief Executive for the financial statements

As explained more fully in the Statements of Directors' and Chief Executive's Responsibilities set out on **pages XX and XX**, the Directors and the Chief Executive are responsible for the preparation of financial statements which give a true and fair view and for such internal control as the Directors and Chief Executive determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

Responsibilities for regularity

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

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

Adrian Crompton
Auditor General for Wales
11 June 2019

24 Cathedral Road
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Appendix 3

Summary of corrections made to the draft financial statements which should be drawn to the attention of the Board

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.

We have identified no corrections which affect the Health Board's overall three-year surplus of £57,000, as reported in the draft financial statements.

Exhibit 1: Summary of corrections made to the draft financial statements

Value of correction	Nature of correction	Reason for correction
£10.9 million	Removal of expenditure and income from Notes 3.2 and 4 (amendments also required to receivables in Note 15 and payables in Note 18).	Removal of income and expenditure regarding a new pooled budget arrangement. While the net financial position relating to this pooled budget was accurate in the draft accounts, gross expenditure and income were overstated by this amount, with amendments also required to receivables and payables. This correction has no impact on the Health Board's net operating costs for the year, nor net assets employed in the Statement of Financial Position.
Various	Reclassification of employee costs in Note 9.1.	Various amendments to this disclosure note within the 'salaries and wages' and 'employer contributions to NHS pension scheme' rows. These corrections increase employee costs in this stand-alone disclosure by £300,000 but does not affect overall expenditure.
Various	Reclassification of employee numbers in Note 9.2.	Various amendments to this disclosure, resulting from the amendments required to Note 9.1 above. These corrections increase employee numbers in this stand-alone disclosure by 43 but do not affect overall expenditure.
Various	Disclosure of remuneration relationship in Note	To ensure that this disclosure complies with relevant legislation and guidance, the number of employees disclosed as receiving remuneration higher than that of

Value of correction	Nature of correction	Reason for correction
	9.6 (material by nature).	the Chief Executive has increased from 5 to 10. The relevant bandings have also been updated.
Various	Disclosure of related parties in Note 31.	A number of additional and amended disclosures of related party relationships, transactions and balances have been made within the Note for the Health Board and WHSSC/EASC, to ensure that disclosures are in line with accounting standards.
Various	Disclosure of the remuneration report.	A number of amendments have been made to the various remuneration report tables, clarifying certain roles and dates, amending certain benefits in kind and updating pension benefit disclosures.
Various	Other amendments, reclassifications and narrative changes.	<p>A number of other minor amendments have been made to correct presentational issues and enhance disclosures within various notes to the consolidated Health Board accounts.</p> <p>These include minor amendments to the WHSSC/EASC accounts that form part of the consolidated Health Board accounts but have no impact on the overall break-even position of WHSSC/EASC.</p>

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