

## 2021 Audit Plan – Cwm Taf Morgannwg University Health Board

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This document is also available in Welsh.

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# 2021 Audit Plan

## About this document

- 1 This document sets out the work I plan to undertake during 2021 to discharge my statutory responsibilities as your external auditor and to fulfil my obligations under the Code of Audit Practice.

## Impact of COVID-19

- 2 The COVID-19 pandemic continues to have an unprecedented impact on the United Kingdom and the work of public sector organisations.
- 3 Audit Wales staff will continue to work pragmatically to deliver the audit work set out in this plan. In response to the government advice and subsequent restrictions, we will continue to work remotely until such time that it is safe to resume on-site activities. I remain committed to ensuring that the work of Audit Wales staff will not impede the vital activities that public bodies need to do to respond to on-going challenges presented by the COVID-19 pandemic.
- 4 This audit plan sets out an initial timetable for the completion of my audit work. However, given the on-going uncertainties around the impact of COVID-19 on the sector, some timings may need to be revisited.

## Audit of financial statements

- 5 I am required to issue a report on the Health Board's financial statements which includes an opinion on their 'truth and fairness' and the regularity of income and expenditure. In preparing such a report, I will:
  - give an opinion on your financial statements;
  - give an opinion on the proper preparation of key elements of your Remuneration and Staff Report; and
  - assess whether your Annual Governance Statement and other information presented with the financial statements are prepared in line with guidance and consistent with the financial statements.
- 6 I will also report by exception on a number of matters which are set out in more detail in our Statement of Responsibilities, along with further information about our work.
- 7 I do not seek to obtain absolute assurance on the truth and fairness 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 quantitative level at which I judge such misstatements to be material for the Health Board is currently £13.1 million. I review my levels of materiality throughout the audit, for example when the Health Board presents me with its draft financial statements. The levels at which I judge such misstatements

to be material, which can change, will also be reported to the Audit Committee and Board prior to completion of the audit.

- 8 Whether I judge an item to be material is also be affected by certain qualitative issues such as legal and regulatory requirements, or areas of the financial statements that I consider to be of particular interest to the reader that I therefore judge to be sensitive. I currently set significantly lower levels of materiality for the remuneration of senior officers and independent members, exit packages, and related-party disclosures. I review my areas and levels of lower materiality throughout the audit.
- 9 I judge any misstatements below a trivial level (set at 5% of materiality) as not requiring consideration by those charged with governance and I therefore will not report them.
- 10 I also audit your charitable funds' accounts. This year I might provide a separate audit plan and audit fee for this audit. I will be discussing this matter with the Director of Finance before I decide whether to make the separation.
- 11 I can confirm that to date there have been no limitations imposed on me in planning the scope my audit work.

## Audit of financial statement risks

- 12 The following table sets out the significant risks that I have currently identified for the audit of your financial statements. You should note that my auditing planning is currently ongoing.

**Exhibit 1: audit of financial statement 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].	<p>I will:</p> <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;</li> <li>• evaluate the rationale for any significant transactions outside the normal course of business; and</li> </ul>

Financial audit risks	Proposed audit response
	<ul style="list-style-type: none"> <li>• add additional procedures to address any specific risks of management override which are not addressed by the mandatory work above.</li> </ul>
<p>Under the NHS Finance (Wales) Act 2014, health boards ceased to have annual resource limits with effect from 1 April 2014. Health boards instead moved to a rolling three-year resource limit for both revenue and capital, with the first three-year period therefore running to 31 March 2017.</p> <p>While the Health Board currently forecasts that it will operate within its revenue and capital resource limits for the three years to 31 March 2021, there is a risk that it will not do so. This is particularly acute for the capital resource limit, because for the past three years the Health Board has had a cumulative surplus of just £42,000 against a resource limit of £102.5 million.</p>	<p>I will continue to monitor the Health Board's financial position for 2020-21 and the cumulative three-year position to 31 March 2021.</p> <p>This review will also consider the impact of any relevant uncorrected misstatements over those three years.</p> <p>If the Health Board fails to meet the three-year resource limits for revenue and/or capital, I would expect to qualify my regularity opinion on the 2020-21 financial statements. I would also expect to place a substantive report on the statements to explain the basis of the qualification and the circumstances under which it had arisen.</p>
<p>As reported to you last year, I have concerns over the validity of a significant number and value of the Health Board's current liabilities. Since my 2019-20 audit the Health Board has examined its records as at 31 August 2020 (month 5). I have undertaken follow-up testing based on month 5 and relayed my findings to officers. In November the Health Board confirmed that liabilities totalling some £19 million are to be removed; and liabilities totalling £4 million (which I am yet to review) are to be introduced.</p> <p>While the Health Board is undertaking remedial work, which is making good progress, there is still the risk that its current liabilities are materially misstated.</p>	<p>Further to my audit of the month 5 position, I have agreed with the Health Board to review and test its month 11 position (subject to the Health Board's completion of its review and posting of all corrections required, at month 11). I will also test the year-end position as usual.</p>

Financial audit risks	Proposed audit response
<p>The COVID-19 national emergency continues and the pressures on staff resource and of remote working may impact on the preparation and audit of accounts. There is a risk that the quality of the accounts and supporting working papers may be compromised leading to an increased incidence of errors. Quality monitoring arrangements may be compromised due to timing issues and/or resource availability.</p>	<p>I will discuss your closedown process and quality monitoring arrangements with the accounts preparation team and monitor the accounts preparation process. I will help to identify areas where there may be gaps in arrangements.</p>
<p>The increased funding streams and expenditure in 2020-21 to deal with the COVID-19 pandemic will have a significant impact on the risks of material misstatement and the shape and approach to our audit. Examples of issues include accounting for field hospitals and their associated costs; fraud, error, and regularity risks of additional spend; valuation of year-end inventory, including PPE; and estimation of annual leave balances.</p>	<p>I will identify the key issues and associated risks and plan our work to obtain the assurance needed for our audit.</p>
<p>The implementation of the 'scheme pays' initiative in respect of the NHS pension tax arrangements for clinical staff is ongoing. Last year I included an 'Emphasis of Matter' paragraph in my audit opinion drawing attention to your disclosure of the contingent liability. However, if any expenditure is made in year, we would consider it to be irregular as it contravenes the requirements of 'Managing Welsh Public Money'.</p>	<p>I will review the evidence one year on in respect of the take-up of the scheme and the need for a provision, and the consequential impact on the regularity opinion.</p>
Other areas of audit attention	
<p>I audit some of the disclosures in the Remuneration Report, such as the</p>	<p>I will review all entries in the Remuneration Report to verify that the</p>

Financial audit risks	Proposed audit response
remuneration of senior officers and independent members, to a low level of materiality. The disclosures are therefore inherently more prone to material misstatement.	Health Board has reflected all known changes to senior positions, and that the disclosures are complete and accurate.
In December 2020 the NHS Wales Shared Services Partnership raised concerns with the Health Board in respect of its Welsh Risk Pool debtor/creditor balance. The balance was some £33 million in December.	I have recently received the Health Board's reply to NHS Wales Shared Services Partnership. I will be examining the matter as part of my audit planning and interim testing.
Introduction of IFRS 16 Leases has been deferred until 1 April 2022 and may pose implementation risks. There is considerable work required to identify leases and the COVID-19 national emergency may pose implementation risks.	I will undertake some early work to review preparedness for the introduction of IFRS 16 Leases. See <b>Appendix 2, Exhibit 6</b> for more detail.

## Performance audit work

- 13 In addition to my Audit of Financial Statements, I must also satisfy myself that the Health Board has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. I do this by undertaking an appropriate programme of performance audit work each year.
- 14 Where appropriate, I will also take opportunities to assess the extent to which the Health Board is acting in accordance with the sustainable development principle<sup>1</sup> as per my duties set out in the Well-being of Future Generations (Wales) Act 2015. This work will be informed by the responses to my recent [consultation](#) on how I approach my duties in respect of the Act. I will be writing to the public bodies designated in the Act setting out the results of the consultation and how I intend to approach this work over the reporting period 2020-25.

<sup>1</sup> 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'



- 15 My work programme is informed by specific issues and risks facing the Health Board and the wider NHS in Wales. I have also taken account of the work that is being undertaken or planned by other external review bodies and by internal audit. **Exhibit 2** sets out my current plans for performance audit work in 2021.

**Exhibit 2: My planned 2021 performance audit work at the Health Board**

Theme	Approach/key areas of focus
<b>NHS Structured Assessment</b>	<p>Structured assessment will continue to form the basis of the work auditors do at each NHS body to examine the existence of proper arrangements for the efficient, effective and economical use of resources.</p> <p>The plans for 2021 structured assessment work reflect the ongoing arrangements of NHS bodies in response to the COVID-19 emergency. My 2021 work will be undertaken in two phases.</p> <p>Phase 1 will review the effectiveness of operational planning arrangements to help NHS bodies continue to respond to the challenges of the pandemic and to recover and restart services.</p> <p>Building on last year's work, Phase 2 will examine how well NHS bodies are embedding sound arrangements for corporate governance and financial management, drawing on lessons learnt from the initial response to the pandemic.</p>
<b>All Wales Thematic Reviews</b>	<p><b>Unscheduled care arrangements</b></p> <p>My 2020 audit plans included a thematic review examining different aspects of the unscheduled care system. However, this work was paused during the early stages of the pandemic and then ultimately replaced to allow resources to be diverted to a high-level review of the Test, Trace and Protect (TTP) programme.</p> <p>My planned work on unscheduled care will now be delivered as part of my 2021 programme. It will include an analysis of national data sets, a high-level commentary of the performance of the unscheduled care system.</p> <p>This will be followed by more detailed work focusing on the mechanisms for managing demand for unscheduled care and patient flow through the system.</p>

Theme	Approach/key areas of focus
	<p><b>COVID-19 related outputs</b></p> <p>I also plan to use an element of the 2021 audit fee to respond to aspects of the pandemic where my insight and knowledge across Wales will provide value to NHS bodies. The precise focus of this work will be kept under review and will be reflected in the regular updates that are produced for the audit committee.</p>
<b>Locally focused work</b>	<p>Where appropriate, I will also undertake thematic performance audit work that reflects issues specific to the Health Board. The precise focus of this work will be agreed with executive officers and the Audit Committee and will be reflected in the regular updates that are produced for the audit committee.</p>
<b>Implementing previous audit recommendations</b>	<p>My structured assessment work will include a review of the arrangements that are in place to track progress against previous audit recommendations. This allows me to obtain assurance that the necessary progress is being made in addressing areas for improvement identified in previous audit work. It also enables us to more explicitly measure the impact our work is having. Expectations on the implementation of previous audit recommendations will be adjusted as appropriate to take account of the impact on COVID-19.</p>

- 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 you, are set out in **Appendix 1**.

## Fee, audit team and timetable

- 17 My fees and the planned timescales for completion of the audit are based on the following assumptions:
- the financial statements are provided to the agreed timescales, to the quality expected and have been subject to quality assurance review;

- information provided to support the financial statements is in accordance with the agreed audit deliverables document<sup>2</sup>;
- appropriate facilities and access to documents are provided to enable my 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 Accounting Officer to provide all the assurances that I require in the Letter of Representation addressed to me; and
- Internal Audit's planned programme of work is complete, and management has responded to issues that may have affected the financial statements.

## Fee

- 18 My statutory 2021-22 Fee Scheme is due to be published soon. My fee-estimates to audited bodies are then assessed and set. My audit team will therefore write to the Health Board soon with:
- my fee estimate for 2021; and
  - my fee outturn for 2020, and any additional cost to be invoiced or rebate to be paid.
- 19 The fee letter will be presented to you at your next meeting. My planning will be ongoing and changes to our programme of audit work, and therefore the 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 the audit team, together with their contact details, are summarised in [Exhibit 3](#).

<sup>2</sup> The agreed audit deliverables documents will set out the expected working paper requirements to support the financial statements, and include timescales and responsibilities.

### Exhibit 3: my local audit team

Name	Role	Contact number	E-mail address
Dave Thomas	Audit Director Performance Audit), and Audit Wales Engagement Director for the Health Board	02920 320604	<a href="mailto:Dave.Thomas@audit.wales">Dave.Thomas@audit.wales</a>
Anthony Veale	Audit Director Financial Audit)	02920 320585	<a href="mailto:Anthony.Veale@audit.wales">Anthony.Veale@audit.wales</a>
Mark Jones	Audit Manager (Financial Audit)	02920 320631	<a href="mailto:Mark.Jones@audit.wales">Mark.Jones@audit.wales</a>
Steve Stark	Audit Lead (Financial Audit)	02920 829347	<a href="mailto:Steve.Stark@audit.wales">Steve.Stark@audit.wales</a>
Sara Utley	Audit Lead (Performance Audit)	02920 829399	<a href="mailto:Sara.Utley@audit.wales">Sara.Utley@audit.wales</a>

22 I can confirm that team members are all independent of you and your officers.

### Timetable

23 The key milestones for the work set out in this plan are shown in **Exhibit 4**. As highlighted earlier, there may be a need to revise the timetable in light of developments with COVID-19.

#### Exhibit 4: Audit timetable

Planned output	Work undertaken	Report finalised
<b>2021 Audit Plan</b> Issued each year while my audit planning is ongoing, per paragraph 12.	December 2020 to April 2021	January 2021
<b>Audit of Financial statements work:</b> <ul style="list-style-type: none"> <li>• Audit of Financial Statements Report</li> <li>• Opinion on Financial Statements</li> <li>• Audit of Financial Statements Addendum Report</li> </ul>	January to June 2021	June 2021  June 2021  August 2021
<b>Performance audit work:</b> <ul style="list-style-type: none"> <li>• Structured Assessment</li> <li>• Unscheduled Care</li> <li>• COVID-19 outputs</li> <li>• Local project work</li> </ul>	Timescales for individual projects will be discussed with you and detailed within the specific project briefings produced for each study.	
2022 Audit Plan	December 2021 to April 2022	January 2022

# Appendix 1

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

The following table summarises the status of the audit work in last year's audit plan which is still in progress.

**Exhibit 5: Performance audit work still in progress.**

Performance audit project	Status	Comment
Review of Welsh Health Specialised Services Committee	Reporting	A national report is due to be published in early 2021.
Unscheduled Care	Fieldwork	This work was paused as a result of the pandemic and replaced with a review of the Test, Trace and Protect (TTP) programme. Unscheduled care work has been carried forward to feature in this year's plan.
Test, Trace and Protect	Reporting	A national report is due to be published in early 2021.
Joint Review Follow Up of Quality Governance Arrangements	Drafting	The report is scheduled for completion by March 2021

# Appendix 2

## Other future developments

### Forthcoming key IFRS changes

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

**Exhibit 6: changes to IFRS standards**

Standard	Effective date	Further details
IFRS 16 Leases	1 April 2022	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	2023-24 at earliest	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. 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.

## **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 were 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**

Audit Wales' Good Practice (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. This year the work has focused on COVID-19 learning. Further information on this can be found on our [website](#).

## **Brexit: The United Kingdom's future outside the European Union**

The United Kingdom left the European Union on 31 January 2020 under the terms of the Withdrawal Agreement. Between then and 31 December 2020, the UK entered a transition period, during which it continued to participate in EU programmes and follow EU regulations. On 31 December 2020, the transition period ended, and a new relationship between the UK and EU started, on the basis of a new free trade agreement.

The new agreement means some substantial changes in the trading relationship between the UK and the EU. There will also potentially be changes in administrative areas previously covered by EU law. In the short term, the UK has incorporated EU rules into domestic law. However, it is likely that in some key areas, such as public procurement, agricultural support and state aid, the UK will seek to diverge over time. In changing these rules, there will be some important constitutional issues around the relationship between the UK Government and devolved governments.

The wider opportunities and risks for Wales' economy, society and environment will become clearer as public services move from managing the short-term risks, especially around disruption to supply chains, to adapting to a different relationship with the EU and the wider world. I am also awaiting further details on the UK Government's plans to replace EU funding schemes for regional development and rural development.

The Auditor General will continue to keep a watching brief over developments. In November, he wrote to the Chair of the External Affairs and Additional Legislation Committee setting out some observations on the latest position with respect to preparations for the end of the transition period. His letter can be found [here](#). His previous report on public bodies Brexit preparations can be found [here](#) with his follow up on progress [here](#).







Audit Wales

24 Cathedral Road

Cardiff CF11 9LJ

Tel: 029 2032 0500

Fax: 029 2032 0600

Textphone: 029 2032 0660

E-mail: [info@audit.wales](mailto:info@audit.wales)

Website: [www.audit.wales](http://www.audit.wales)

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