

Annual Audit Report 2020 – Swansea Bay University Local Health Board

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Summary report

About this report

- 1 This report summarises the findings from my 2020 audit work at Swansea Bay University Health Board (the Health Board) undertaken to fulfil my responsibilities under the Public Audit (Wales) Act 2004. That Act requires me to:
 - examine and certify the accounts submitted to me by the Health Board, and to lay them before the Senedd;
 - satisfy myself that expenditure and income have been applied to the purposes intended and are in accordance with authorities; and
 - satisfy myself that the Health Board has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
- 2 I report my overall findings under the following headings:
 - Audit of accounts
 - Arrangements for securing economy, efficiency and effectiveness in the use of resources
- 3 This year's audit work took place at a time when public bodies were responding to the unprecedented and ongoing challenges presented by the COVID-19 pandemic. Given its impact, I re-shaped my planned work programmes by considering how to best assure the people of Wales that public funds are well managed. I considered the impact of the current crisis on both resilience and the future shape of public services and aimed to ensure my work did not hamper public bodies in tackling the crisis, whilst ensuring it continued to support both scrutiny and learning. All on-site audit work was suspended whilst we continued to work and engage remotely where possible through the use of technology. This inevitably had an impact on the delivery of some of my planned audit work but has also driven positive changes in our ways of working.
- 4 The delivery of my audit of accounts work was not without its challenges, not only in how and where we undertook the work, but also in taking account of new considerations for financial statements arising directly from the pandemic. The success in delivering to the amended timetable reflects a great collective effort by both my staff and the Health Board's officers to embrace and enable new ways of working and remain flexible to and considerate of the many issues arising.
- 5 At the onset of the pandemic I suspended the publication of some performance audit reports nearing completion, reflecting the capacity of audited bodies to support remaining fieldwork and contribute to the clearance of draft audit outputs. I have also adjusted the focus and approach of some other planned reviews to ensure their relevance in the context of the crisis. New streams of work have been introduced, such as my review of the Test, Trace and Protect programme, and my local audit teams have contributed to my wider COVID-19 learning work.

- 6 This report is a summary of the issues presented in more detailed reports to the Health Board this year (see **Appendix 1**). I also include a summary of the status of planned work currently being re-scoped.
- 7 **Appendix 2** presents the latest estimate of the audit fee that I will need to charge to cover the costs of undertaking my work, compared to the original fee set out in the 2020 Audit Plan.
- 8 **Appendix 3** sets out the financial audit risks set out in my 2020 Audit Plan and how they were addressed through the audit.
- 9 The Chief Executive, the Director of Finance and Director of Corporate Governance have agreed the factual accuracy of this report. We presented it to the Audit Committee on 12 January 2021. The Board will receive the report at its January 2021 Board meeting and every member will receive a copy. We strongly encourage the Health Board to arrange its wider publication. We will make the report available to the public on the [Audit Wales website](#) after the Board have considered it.
- 10 I would like to thank the Health Board's staff and members for their help and co-operation throughout my audit.

Key messages

Audit of accounts

- 11 I concluded that the Health Board's accounts were properly prepared and materially accurate and issued an unqualified audit opinion on them. My work did not identify any material weaknesses in the Health Board's internal controls relevant to my audit of the accounts. However, I placed an Emphasis of Matter paragraph in my report to draw attention to disclosures in the accounts relating to NHS Clinician's pension tax liabilities.
- 12 The Health Board did not achieve financial balance for the three-year period ending 31 March 2020, and although had no other material financial transactions that were not in accordance with authorities nor used for the purposes intended, I have issued a qualified opinion on the regularity of the financial transactions within the Health Board's 2019-20 accounts.
- 13 Alongside my audit opinion, I placed a substantive report on the Health Board's financial statements to highlight the failure to achieve financial balance and to have an approved three-year plan in place.

Arrangements for securing efficiency, effectiveness and economy in the use of resources

- 14 My programme of Performance Audit work has led me to draw the following conclusions:

- the Health Board maintained overall good governance while working with revised frameworks to discharge Board responsibilities during the COVID-19 response;
- the Health Board faces significant financial challenges, including the ongoing costs for responding to COVID-19, but it has strengthened aspects of financial management and maintained effective financial controls and reporting;
- operational plans are informed by data modelling, a clear commitment to stakeholder engagement, regional working and staff wellbeing with arrangements for monitoring progress and performance. However, another COVID-19 peak will present a significant workforce challenge; and
- the Health Board demonstrates a commitment to counter-fraud, has suitable arrangements to support the prevention and detection of fraud and is able to respond appropriately where fraud occurs.

15 These findings are considered further in the following sections.

Detailed report

Audit of accounts

- 16 This section of the report summarises the findings from my audit of the Health Board's financial statements for 2019-20. These statements are how the organisation shows its financial performance and sets out its net assets, net operating costs, recognised gains and losses, and cash flows. Preparing the statements is an essential element in demonstrating the appropriate stewardship of public money.
- 17 My 2020 Audit Plan set out the financial audit risks for the audit of the Health Board's 2019-20 financial statements. **Exhibit 4 in Appendix 3** lists these risks and sets out how they were addressed as part of the audit.
- 18 My responsibilities in auditing the Health Board's financial statements are described in my [Statement of Responsibilities](#) publications, which are available on the [Audit Wales website](#).

Accuracy and preparation of the 2019-20 financial statements

- 19 **The Health Board's accounts were properly prepared and materially accurate and issued an unqualified audit opinion on them. My work did not identify any material weaknesses in the Health Board's internal controls relevant to my audit of the accounts. However, I placed an Emphasis of Matter paragraph in my report to draw attention to disclosures in the accounts relating to NHS Clinician's Pension Tax Liabilities.**
- 20 I received draft accounts by the deadline and the supporting working papers were of good quality.
- 21 I reviewed those internal controls that I considered to be relevant to the audit to help me identify, assess and respond to the risks of material misstatement in the accounts. I did not consider them for the purposes of expressing an opinion on the operating effectiveness of internal control. My review did not identify any significant deficiencies in the Health Board's internal controls.
- 22 I must report issues arising from my work to those charged with governance before I issue my audit opinion on the accounts. My Financial Audit Engagement Lead reported these issues to the Health Board's Audit Committee on 25 June 2020. **Exhibit 1** summarises the key issues set out in that report.

Exhibit 1: issues identified in the Audit of Financial Statements Report

Issue	Auditors' comments
Uncorrected misstatements	There were no uncorrected misstatements.
Corrected misstatements	There were several adjustments made to the draft accounts which in the main related to additional narrative to provide more clarity.
Other significant issues	I qualified my regularity opinion and issued a substantive report because the Health Board did not achieve its financial duty to achieve financial balance for the three years ending 2019-20.

- 23 I also undertook a review of the Whole of Government Accounts return. I concluded that the counterparty consolidation information was consistent with the Health Board's financial position at 31 March 2020 and the return was prepared in accordance with the Treasury's instructions.
- 24 My separate audit of the charitable funds financial statements is complete, and I issued an unqualified opinion on the accounts on 10 November 2020.

Regularity of financial transactions

- 25 **The Health Board did not achieve financial balance for the three-year period ending 31 March 2020 and so I have issued a qualified opinion on the regularity of the financial transactions within its 2019-20 accounts.**
- 26 The Health Board's financial transactions must be in accordance with authorities that govern them. The Health Board must have the powers to receive the income and incur the expenditure. Our work reviews these powers and tests that there are no material elements of income or expenditure which the Health Board does not have the powers to receive or incur.
- 27 Where a Health Board does not achieve financial balance, its expenditure exceeds its powers to spend and so I must qualify my regularity opinion.
- 28 In 2019-20, the Health Board reported a year-end deficit of £16.3 million. In addition, the Health Board breached its cumulative resource limit by spending £58.6 million over the £3.1 billion that it was authorised to spend in the three-year period 2017-18 to 2019-20.

- 29 **Alongside my audit opinion, I placed a substantive report on the Health Board's financial statements to highlight its failure to achieve financial balance and also its failure to have an approved three-year plan in place.**
- 30 I have the power to place a substantive report on the Health Board's accounts alongside my opinions where I want to highlight issues.
- 31 Due to the Health Board's failure to meet its financial duties I issued a substantive report setting out the factual details: it failed its duty to achieve financial balance (as set out above) and it does not have an approved three-year plan in place. The Health Board is currently working to a one-year plan.

Arrangements for securing efficiency, effectiveness and economy in the use of resources

- 32 I have a statutory requirement to satisfy myself that the Health Board has proper arrangements in place to secure efficiency, effectiveness and economy in the use of resources. I have undertaken a range of performance audit work at the Health Board over the last 12 months to help me discharge that responsibility. This work has involved:
- undertaking a structured assessment of the Health Board's corporate arrangements for ensuring that resources are used efficiently, effectively and economically; and
 - reviewing the effectiveness of the Health Boards counter-fraud arrangements.
- 33 My conclusions based on this work are set out below.

Structured assessment

- 34 My structured assessment work was designed in the context of the ongoing response to the pandemic. I ensured a suitably pragmatic and relevant approach to help me discharge my statutory responsibilities, whilst minimising the impact on NHS bodies as they responded to the next phase of the COVID-19 pandemic. The key focus of the work was on the corporate arrangements for ensuring that resources are used efficiently, effectively and economically. Auditors also paid attention to progress made to address previous recommendations where these related to important aspects of organisational governance and financial management especially in the current circumstances.
- 35 The structured assessment grouped our findings under three themes:
- governance arrangements;
 - managing financial resources; and

- operational planning: to support the continued response to the pandemic balanced against the provision of other essential services.

Governance arrangements

- 36 My work considered the Health Board's ability to maintain sound governance arrangements while having to respond rapidly to the unprecedented challenges presented by the pandemic.
- 37 My work found that overall good governance has been maintained while working with revised frameworks to discharge Board responsibilities during the COVID-19 response. Through adapted arrangements, the Board maintained transparency, ensuring effective scrutiny and using data effectively to support decision-making. A resilient Board led the organisation and essential systems of assurance continued during the pandemic with a strong focus on risk management. Oversight of governance arrangements was maintained with committees temporarily stood down reinstated.

Managing financial resources

- 38 I considered the Health Board's financial performance, changes to financial controls during the pandemic and arrangements for monitoring and reporting financial performance.
- 39 I found that the Health Board faces significant financial challenge but has strengthened important aspects of financial management and maintained good financial controls, reporting and scrutiny, including tracking of COVID-19 expenditure. With a £16.3 million deficit, it did not meet financial duties in 2019-20 and is forecasting a £24 million deficit in 2020-21. Uncertainty over ongoing COVID-19 costs will likely lead to a bigger deficit without extra funding.
- 40 Budgets were rebased for 2020-21 and the Health Board pursued financial management improvements to strengthen grip and control. The challenge is now to quickly embed these improvements to help the organisation's financial recovery. However, the plan to break even in three years will need recasting in the light of COVID-19 and the smaller cost base from which to make savings following the Bridgend boundary change.

Operational Planning

- 41 My work considered the Health Board's progress in developing and delivering quarterly operational plans to support the ongoing response to COVID-19 and to provide other essential services and functions in line with Welsh Government planning guidance. At the time of our work, the focus was on essential services with the aim of restoring normal and routine activities when it is safe and practicable to do so.

- 42 My work found that operational planning is informed by data modelling with arrangements to monitor progress and performance, and a clear commitment to stakeholder engagement and regional working. Operational plans also support the restart of services and recognise clinical service plan priorities. New ways of working generated by the pandemic are informing the future operating model, but alignment with the previous transformation programme will be needed
- 43 The Health Board has reshaped performance reporting and is developing a new performance management framework based on the four quadrants of harm. The Health Board is also supporting staff wellbeing and rose to workforce challenges, although in the event of another COVID-19 peak, workforce capacity is a risk. Learning is a key part of the organisation's reset and recovery programme.

Effectiveness of counter-fraud arrangements

- 44 In June 2019, I published an [overview for the Public Accounts Committee](#) describing counter-fraud arrangements in the Welsh public sector. My team then undertook a more detailed examination across a range of Welsh public sector bodies to examine how effective counter-fraud arrangements are in practice and to make recommendations for improvement. In July 2020 I published [Raising Our Game – Tackling Fraud in Wales](#) setting out a summary of my findings and seven 'key themes' that all public bodies need to focus on in raising their game to tackle fraud more effectively.
- 45 Whilst this work was not included in the Health Board's audit plan, I also published an additional report setting out the Health Board's specific arrangements for preventing and detecting fraud. I found that the Health Board demonstrates a commitment to counter-fraud, has suitable arrangements to support the prevention and detection of fraud and is able to respond appropriately where fraud occurs.

Appendix 1

Reports issued since my last annual audit report

Exhibit 2: reports issued since my last annual audit report

Report	Date
Financial audit reports	
Audit of Financial Statements Report	June 2020
Opinion on the Financial Statements	July 2020
Audit of Financial Statements Report – Charitable Funds	October 2020
Opinion on the Financial Statements – Charitable Funds	November 2020
Performance audit reports	
Structured Assessment 2020	September 2020
Effectiveness of counter-fraud arrangements	August 2020
Other	
2020 Audit Plan	

Exhibit 3: performance audit work still underway

Report	Estimated completion date
Orthopaedics	December 2020
Review of Welsh Health Specialised Services Committee	December 2020
Test, Trace and Protect	December 2020
Unscheduled care	Phase 1 – February 2021 Further work to be included as part of 2021 plan
Review of the commissioning and contracting arrangements post Bridgend boundary change	March 2021
Quality Governance arrangements	April 2021

Appendix 2

Audit fee

The 2020 Audit Plan set out the proposed audit fee of £391,807 (excluding VAT). My latest estimate of the actual fee, on the basis that some work remains in progress, is in keeping with the fee set out in the outline.

Appendix 3

Financial audit risks

Exhibit 4: financial audit risks

Audit risk	Proposed audit response	Work done and outcome
<p>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>	<p>My audit team will:</p> <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. 	<p>My audit team:</p> <ul style="list-style-type: none"> • tested journal entries; • reviewed accounting estimates, particular primary care payments; and • did not identify any transactions outside of the normal course of business. <p>No matters arose from the work carried out.</p>
<p>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].</p>	<p>My audit team will:</p> <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. 	<p>My audit team reviewed income streams for completeness and tested for accuracy.</p> <p>No matters arose from the work carried out.</p>
<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</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</p>	<p>My audit team reviewed year-end transactions, in particular accruals and cut-off. No matters arose from the work carried out.</p> <p>I placed a substantive report on the financial statements explaining the</p>

<p>£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>explaining the failure and the circumstances under which it arose.</p>	<p>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</p>	<p>My audit team will audit Continuing Healthcare expenditure and ensure the correct accounting treatment.</p>	<p>My audit team sample tested Continuing Healthcare expenditure, creditors, provisions and contingent liabilities. No matters arose from the work carried out.</p>

<p>could be materially misstated.</p>		
<p>Bridgend Boundary Transfer 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 pressures on the remaining staff, increasing the risk that the Health Board may not produce its 2019-20 financial statements by the required deadlines</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>	<p>My audit team liaised with finance staff and ensured that the accounts production plan was adhered to and appropriate disclosures made in the financial statements.</p>
<p>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</p>	<p>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.</p>	<p>My audit team considered the accounting treatment and audit implications. A Contingent Liability was included for this in the financial statements and an Emphasis of Matter included in our audit opinion.</p>

arrangements for clinical staff.		
<p>New accounting standards</p> <p>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.</p>	<p>My team will undertake some early work to review preparedness for the introduction of IFRS 16 Leases.</p>	<p>My audit team reviewed the preparedness for the introduction of IFRS 16 Leases. No matters arose from the work carried out.</p>



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