

Audit of Accounts Report – Swansea Bay University Local Health Board

Audit year: 2022-23

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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.

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We intend to issue an unqualified true and fair audit opinion on your accounts. The audit opinion in respect of the regularity of expenditure is proposed to be qualified because the Health Board did not meet its revenue resource allocation over the three-year period ending 2022-23.

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Audit of Accounts Report

Introduction

- 1 We summarise the main findings from our audit of your 2022-23 accounts in this report.
- 2 We have already discussed these issues with the Director of Finance and his team.
- 3 Auditors can never give complete assurance that accounts are correctly stated. Instead, we work to a level of 'materiality'. This level of materiality is set to try to identify and correct misstatements that might otherwise cause a user of the accounts into being misled. We set this level at £14.68 million for this year's audit.
- 4 There are some areas of the accounts that we judge may be of more importance to the reader and we have set a lower materiality level for these, as follows:
 - Remuneration report/senior pay disclosures
 - Related party transactions.
- 5 We have now substantially completed this year's audit. The timetable for completion of the audited accounts is set out in **Exhibit 1**.

Exhibit 1 – accounts timetable

Timetable

- The deadline for completing your accounts was 5 May 2023.
- We received the draft accounts on 5 May 2023.
- Our deadline for completing our audit is 31 July 2023.
- We expect your audit report to be signed on 19 July 2023.

- 6 In our Detailed Audit Plan, presented to you in June 2023, we included two significant risks (in respect of Management Override and the Health Board's financial position). As part of our ongoing work, and in common with other health accounts audits, we identified an additional significant risk in respect of risk of material misstatement due to fraud in expenditure. We have undertaken work as part of the audit to address this risk.
- 7 In our professional view, we have complied with the ethical standards that apply to our work; remain independent of yourselves; and our objectivity has not been compromised in any way. There are no relationships between ourselves and yourselves that we believe could undermine our objectivity and independence.

Proposed audit opinion

- 8 We issue a 'qualified' audit opinion where we have material concerns about some aspects of your accounts; otherwise we issue an unqualified opinion.
- 9 The Letter of Representation contains certain confirmations we are required to obtain from you under auditing standards along with confirmation of other specific information you have provided to us during our audit.
- 10 We intend to issue an unqualified true and fair opinion but a qualified regularity opinion on your Accounts once you have provided us with a Letter of Representation based on that set out in **Appendix 1**.
- 11 Our proposed audit report is set out in **Appendix 2**. The audit report explains that the regularity opinion for 2022-23 is qualified. In line with prior years, the regularity opinion is qualified because the Health Board did not meet its revenue resource allocation over the three-year period ending 2022-23.

Significant issues arising from the audit

Uncorrected misstatements

- 12 There are a number of misstatements above our trivial level (£0.73 million) but lower than materiality (£14.68 million) that we identified in the accounts, which have been discussed with management but remain uncorrected. These are set out in the following paragraphs. We request that these are corrected. If you decide not to correct this misstatement, we ask that you provide us with the reasons in writing.

Medical Leave Accrual

- 13 In our opinion the Medical Leave Accrual is overstated by £9.47 million. There are two elements to the accrual:
- the first is the data contained with Health Education Improvement Wales's (HEIW) Intrepid system which records medical leave for consultants and doctors. We identified errors in the underlying HEIW data, for example, duplicate entries. Correction of these errors would reduce the accrual by £2.53 million.
 - the second element is a proposed new accounting entry for 2022-23 where the Health Board believes that the Intrepid system has not fully recorded all medical leave due. An additional element has been included within the accrual to estimate currently unclaimed medical leave that the Health Board believes is due. Our audit testing identified that this additional accrual could not be supported either by a robust process or by trend data to show what the actual medical leave was in previous years. In our opinion there is no evidence that the additional medical leave included is certain nor probable to be incurred and so should therefore be included as a contingent liability in the accounts (as it is only possible that this will be incurred). Correction of this error would reduce the accrual by a further £6.94 million.

Leases

- 14 The draft financial statements include a balance of £16,802k in respect of Right of Use Assets (Note 11.3). This has been included for the first time this year as a result of the newly implemented IFRS16 standard.
- 15 Our testing of this balance identified errors in two of the initial six leases sample tested, and three errors in our extended sample of a further 17 leases. The total of these errors is £141,000 with an error rate of five errors out of 23 tested (22%). Our sample has tested the largest leases and we have covered a population of £11.4 million, but we haven't tested £5.4 million of the balance, which although not material, given the errors identified, it is uncertain whether there are further errors in the remaining population that would take the value of errors above our trivial level.

Corrected misstatements

- 16 There were initially misstatements in the accounts that have now been corrected by management. However, we believe that the more significant of these should be drawn to your attention and they are set out with explanations in **Appendix 3**.

Other significant issues arising from the audit

- 17 In the course of the audit, we consider a number of matters relating to the accounts and report any significant issues arising to you. There are some issues that we need to bring to your attention. These are set out as follows:

Retrospective approval of termination payment

- 18 The approval of termination payments to staff is delegated from the Board to the Remuneration and Terms of Service (RATS) Committee.
- 19 A termination payment of £15,000 was made during the year for which approval was provided by the Director of Workforce following consultation with HR and the taking of legal advice. We were informed that this was due to the need for an urgent decision and this falling between scheduled RATS meetings. The decision was taken to the next available RATS meeting for retrospective approval.
- 20 Standing Orders allow for urgent matters that fall outside of Board meetings to be delegated to the Chair and Chief Executive supported by the Board Secretary and consulting two independent members. We consider that this process should have been followed rather than approval by the Director of Workforce.

Audit of Property, Plant and Equipment

- 21 The Health Board officer's engagement with auditors throughout the audit process has been helpful and constructive and allowed us to resolve any audit queries efficiently and effectively.
- 22 Whilst we appreciate that there have been a number of issues affecting the Health Board this year in terms of the five-yearly revaluation of the Estate and the introduction of IFRS16, we did experience some issues during our audit of Property, Plant and Equipment (PPE) which has led to inefficiencies in this area of the audit. Some of the issues are summarised as follows:
- **supporting evidence/working papers** – during the audit, we experienced difficulties with the quality of and/or obtaining the working papers/supporting evidence for some elements of PPE we were testing. Good quality working papers should be in place and quality assured for a clear audit trail.
 - **engagement with audit and/or contingency arrangements** – some of the delays this year were as a result of the absence of a key member of staff either through annual leave or due to other work commitments. Whilst we appreciate that this can happen and officers have other areas of work

alongside the audit, a lack of support staff and/or contingency arrangements (and good quality working papers/evidence) meant that either the audit work was delayed or officers were responding to queries after the end of the normal working day. This was inefficient and more robust contingency arrangements should be put in place going forward.

- **errors/amendments** – audit testing identified a number of errors which either led to amendments to the accounts and/or a need for us to undertake additional audit work and sample testing.

Recommendations

- 23 The recommendations arising from our audit are set out in **Appendix 4**. Management has responded to these, and we will follow up progress against them during next year's audit. Where any actions are outstanding, we will continue to monitor progress and report it to you in next year's report.

Appendix 1

Final letter of representation

[Audited body's letterhead]

Auditor General for Wales
Wales Audit Office
1 Capital Quarter
Tyndall Street
Cardiff
CF10 4BZ

13 July 2023

Representations regarding the 2022-23 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 Swansea Bay University Local Health Board (the Health Board) for the year ended 31 March 2023 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/HM Treasury, 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.

The methods, the data, and the significant assumptions used in making accounting estimates, and their related disclosures, are appropriate to achieve recognition, measurement or disclosure that is reasonable in the context of the applicable financial reporting framework.

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

There are three uncorrected misstatements in the financial statements. 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. A summary of these items is set out below:

- **Medical Leave Accrual** – the year-end accrual was overstated by £9.47 million due to (i) errors identified in the underlying HEIW data for £2.53 million and (ii) an element of the accrual for £6.94 million which Audit Wales does not believe is supported by a robust system and for which trend data does not support that these amounts will have to be paid out. Audit Wales' view is that this should be included as a Contingent Liability in the accounts rather than an accrual (£6.94 million). The Health Board has chosen not to amend these as the starting point for the calculation of the accrual contained within the accounts for Medical Study Leave is based on the core data provided by HEIW and extracted from the Intrepid system. As this is provided by an independent source, the Health Board did not use any judgements to adjust the core data provided.

However, on receipt of the core data it was clear that there were significant gaps in the data provided. For example, for Consultant staff, of the 527.38 WTE recorded in the Health Board's Financial Ledger at the end of February 2023, the HEIW core data only provided information for 62.7 WTE.

Given the material level of information missing, the methodology adopted by the Health Board was to use the core data as a sample, without any judgements or changes, to extrapolate the liability for the full 527.38 WTE consultants. This methodology was also used to calculate the liability for the non-consultant medical posts.

The approach of 'extrapolating up' based on a reasonable sample size has been adopted in previous years for the calculation of the Annual Leave accrual for Medical Staffing and signed off by Audit Wales.

Adopting a prudent approach ensured that a liability was included for the 471.68 WTE Consultant posts and 238.77 WTE non-consultant posts not recorded in the core data provided by HEIW. This reflects the £6.94 million under item (ii) on the Medical Leave Accrual.

Both the Health Board and Audit Wales would conclude that the quality of the data provided by HEIW via the Intrepid Systems has been extremely poor. However, as noted above, given this data was provided by an independent source, the Health Board did not use judgements to adjust the core data in calculating the accrual, but

used the data to extrapolate the missing WTE. Additionally, no other data source is available to support the construction of an accrual to allow the reporting of an appropriate liability in the accounts.

As part of the discussion with Audit Wales in early June it was agreed that a review of the HEIW data would be undertaken, with the aim of this exercise being to provide a reasonableness check to the value provided for within the draft accounts. The overarching approach of the exercise was to cleanse the data using an alternative set of judgments, without impacting on the integrity of the independent data provided from the Intrepid System.

The judgments adopted in this alternative exercise resulted in a change to the value of the remaining study leave days at 31 March 2023. Overall, when combining the revised assessment of Consultant and Non-Consultant and comparing to the value included within the draft accounts, the difference was £2.5 million (item i). This change was primarily a result of the revised judgments on the entitlement dates built into the data set, as opposed to taking the carry forward leave value in the core data provided by HEIW.

It is recognised by the Health Board that, given the quality of the core data provided, there is work required during 2023-24. This work will build on the lessons learnt throughout this audit and this exercise will explore options on the calculation of the accrual for the 2023-24 Annual Accounts and assess possible options via the Technical Accounting Group for Wales. The final proposed methodology will be presented to Audit Committee as part of the standard Annual Accounts update paper in March 2024. Support from Audit Wales would be welcomed as the Health Board seeks to incorporate learning from this year's fieldwork into the proposed revised methodology for 2023-24 accounts.

- **Leases** – The draft financial statements include a balance of £16,802k in respect of Right of Use Assets (Note 11.3). This has been included for the first time this year as a result of the newly implemented IFRS16 standard. Audit testing identified errors in five of the 23 tested with a total error of £141,000. Audit testing covered a population of £11.4 million, but hasn't tested £5.4 million of the balance, which although is not material, given the errors identified, Audit Wales are uncertain whether there are further errors in the remaining population that would take the value of errors above trivial level. The Health Board has chosen not to amend given the £141,000 identified is 1.2% of the £11.4 million. If the same percentage of errors was identified in the remaining £5.4 million not tested, then this could result in a total error of £208,000. This combined value is below the trivial level and so no adjustment has been made within the final accounts.

Representations by those charged with governance

We acknowledge that the above representations made by management 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 Health Board on 13 July 2023.

We confirm that we have taken all necessary steps 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 as Accountable Officer

Date:

Signed by:

Chair of Board

Date:

Appendix 2

Proposed Audit Report

The Certificate of the Auditor General for Wales to the Senedd

Opinion on financial statements

I certify that I have audited the financial statements of Swansea Bay University Local Health Board for the year ended 31 March 2023 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 Taxpayers' 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 UK adopted international accounting standards as interpreted and adapted by HM Treasury's Financial Reporting Manual.

In my opinion the financial statements:

- give a true and fair view of the state of affairs of Swansea Bay University Local Health Board as at 31 March 2023 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.

Opinion on regularity

In my opinion, except for the matters described in the Basis for Qualified Regularity Opinion section of my report, in all material respects, the expenditure and income in the financial statements have been applied to the purposes intended by the Senedd and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Basis for Qualified Opinion on regularity

I have qualified my opinion on the regularity of Swansea Bay University Local Health Board's financial statements because the Health Board has breached its resource limit by spending £46.865 million over the £3,326 million that it was authorised to spend in the three-year period 2020-21 to 2022-23. This spend constitutes irregular expenditure.

Further detail is set out in the attached Report.

Basis of opinions

I conducted my audit in accordance with applicable law and International Standards on Auditing in the UK (ISAs (UK)) and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'.

My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my certificate.

My staff and I are 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 opinions.

Conclusions relating to going concern

In auditing the financial statements, I have concluded that the use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work I have performed, I have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the body's ability to continue to adopt the going concern basis of accounting for a period of at least 12 months from when the financial statements are authorised for issue.

My responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this certificate.

The going concern basis of accounting for Swansea Bay University Local Health Board is adopted in consideration of the requirements set out in HM Treasury's Government Financial Reporting Manual, which require entities to adopt the going concern basis of accounting in the preparation of the financial statements where it anticipated that the services which they provide will continue into the future.

Other information

The other information comprises the information included in the annual report other than the financial statements and my auditor's report thereon. The Chief Executive is responsible for the other information contained within the annual report. 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. My responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether this gives rise to a material misstatement in the financial statements themselves. If I conclude that there is a material misstatement of this other information based on the work I have performed, I am required to report that fact.

I have nothing to report in this regard.

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 thereunder by Welsh Ministers.

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

- the parts of the Accountability Report subject to audit have been properly prepared in accordance with the National Health Service (Wales) Act 2006 and directions made there under by Welsh Ministers' directions; and
- the information given in the Foreword, Accountability Report and Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and is 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 Foreword and Accountability Report or the Governance Statement.

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

- I have not received all the information and explanations I require for my audit;
- adequate accounting records have not been kept, or returns adequate for my audit have not been received from branches not visited by my team;
- the financial statements and the audited part of the Accountability Report 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;
- certain disclosures of remuneration specified by HM Treasury's Government Financial Reporting Manual are not made or parts of the Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

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, the Directors and the Chief Executive are responsible for:

- maintaining adequate accounting records;

- the preparation of financial statements and annual report in accordance with the applicable financial reporting framework and for being satisfied that they give a true and fair view;
- ensuring that the annual report and financial statements as whole are fair, balanced and understandable;
- ensuring the regularity of financial transactions;
- internal controls as the Directors and Chief Executive determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and
- assessing the Board's ability of continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors and Chief Executive anticipate that the services provided by the Board will not continue to be provided in the future.

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit, certify and report on the financial statements in accordance with the National Health Service (Wales) Act 2006.

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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. I design procedures in line with my responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud.

My procedures included the following:

- enquiring of management, the audited entity's head of internal audit and those charged with governance, including obtaining and reviewing supporting documentation relating to Swansea Bay University Local Health Board policies and procedures concerned with:
 - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
 - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
 - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations.
- considering as an audit team how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, I

identified potential for fraud in the following areas: revenue recognition, posting of unusual journals, and biases in accounting estimates.

- obtaining an understanding of Swansea Bay University Local Health Board's framework of authority and other legal and regulatory frameworks that Swansea Bay University Local Health Board operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of Swansea Bay University Local Health Board.
- obtaining an understanding of related party relationships.

In addition to the above, my procedures to respond to identified risks included the following:

- reviewing the financial statement disclosures and testing supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management, those charged with governance and legal advisors about actual and potential litigation and claims;
- reading minutes of meetings of those charged with governance and the Board; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments, assessing whether the judgements made in making accounting estimates are indicative of a potential bias, and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

I also communicated relevant identified laws and regulations and potential fraud risks to all audit teams and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

The extent to which my procedures are capable of detecting irregularities, including fraud, is affected by the inherent difficulty in detecting irregularities, the effectiveness of Swansea Bay University Local Health Board controls, and the nature, timing and extent of the audit procedures performed.

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.

Other auditor's responsibilities

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 Senedd and the financial transactions conform to the authorities which govern them.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

Report

Please see my Report on page 20.

Adrian Crompton
Auditor General for Wales

19 July 2023

1 Capital Quarter
Tyndall Street
Cardiff
CF10 4BZ

Report of the Auditor General to the Senedd

Introduction

Under the Public Audit Wales Act 2004, I am responsible for auditing, certifying and reporting on Swansea Bay University Local Health Board's (the LHB's) financial statements. I am reporting on these financial statements for the year ended 31 March 2023 to draw attention to a key matter for my audit, the failure against the first financial duty and consequential qualification of my 'regularity' opinion. I have not qualified my 'true and fair' opinion in respect of this.

Financial duties

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

For 2022-23, Swansea Bay University Local Health Board (the LHB) failed to meet the first financial duty.

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 three-year period being measured under this duty this year is 2020-21 to 2022-23.

As shown in Note 2.1 to the Financial Statements, the LHB did not manage its revenue expenditure within its resource allocation over this three-year period, exceeding its cumulative revenue resource limit of £3,326 million by £46.865 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.

Adrian Crompton

Auditor General for Wales

19 July 2023

Appendix 3

Summary of Corrections Made

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.

Exhibit 2: summary of corrections made

Value of correction	Nature of correction	Reason for correction
£1,437,000 (Expenditure and Accruals were reduced, year-end Surplus increased)	Statement of Comprehensive Net Expenditure, Statement of Financial Position, Note 3.2 Expenditure on healthcare from other providers and Note 18 Trade and Other Payables Audit testing identified that the Continuing Healthcare Accrual was overstated by £1,437,000 due to a duplicate entry being made within the accrual. The financial statements were amended to reduce the accrual (Note 18) and expenditure (Note 3.2) by this amount. The result of this was that the year-end surplus reported by the Health Board was increased by the same amount.	To ensure the accuracy of the financial statements.

Value of correction	Nature of correction	Reason for correction
<p>£131,000 (No overall effect on the primary statements)</p>	<p>Note 3.3 Expenditure on Hospital and Community Health Services As part of our audit work, the Health Board identified that the costs of the Director of Corporate Governance post had been incorrectly included in Directors costs rather than staff costs. As a result, the Directors Costs in Note 3.3 was overstated by £131,000 and the staff costs in Note 3.3 understated by £131,000. There was no overall effect on the Primary Statements.</p>	<p>To ensure the financial statements agree to the underlying evidence.</p>
<p>£18,000 (No overall effect on the primary statements)</p>	<p>Note 9.1 Employee Costs Audit testing identified a difference between the draft financial statements and the supporting working papers. The financial statements total of employee costs in Note 9.1 were amended to £736,097 from £717,954. There was no overall effect on the primary statements.</p>	<p>To ensure the financial statements agree to the underlying evidence.</p>

Value of correction	Nature of correction	Reason for correction
<p>£58,000 (No overall effect on the primary statements)</p>	<p>Note 9.5 Exit Packages A review of the minutes for the RATS Committee during the year identified a redundancy payment of £58,000 which had been omitted from Note 9.5 and the Remuneration Report. The financial statements were amended to include £58,000 within the £50,000-£100,000 banding. This increased the total number of exit packages to one for 2022-23. There was no overall effect on the primary statements.</p>	<p>To ensure the financial statements agree to the underlying evidence.</p>
<p>£2,354,000 (No overall effect on the primary statements)</p>	<p>Note 11 Property, Plant and Equipment (PPE) The financial statements were amended to move £2,354k from the indexation line in Note 11.1 to Revaluations to ensure the correct accounting treatment. There was no overall effect on the note or the primary statements.</p>	<p>To ensure accuracy of the financial statements</p>

Value of correction	Nature of correction	Reason for correction
<p>£1,051,000 (No overall effect on the primary statements)</p>	<p>Note 11.3 Right of Use Assets As part of our audit work, the Health Board identified that the Transfer of Finance Leases from PPE (£1,051k) had been incorrectly included within the Operating Leases Transitioning line. The financial statements have been amended to split out the £1,051k into the correct line in Note 11.3, with no effect on the overall total. There was no overall effect on the financial statements.</p>	<p>To ensure accuracy of the financial statements.</p>
<p>Various (No overall effect on the primary statements)</p>	<p>Cash Flow Statement and Note 28 An error was identified in the Cashflow Statement and Note 28 in respect of the figures for the Right of Use Assets. A number of amendments were made to the lines within the Cashflow Statement and Note 28 with no effect on the overall total. There is no overall effect on the primary statements.</p>	<p>To ensure accuracy of the financial statements.</p>
<p>Disclosure only (No overall effect on the primary statements)</p>	<p>Note 23 Losses and Special Payments An additional disclosure was added to reflect that the In Year Claims in excess of £300,000 are in line with requirements of the Manual for Accounts (MFA).</p>	<p>To ensure disclosures are in line with the MFA.</p>

Value of correction	Nature of correction	Reason for correction
<p>Various (No overall effect on the primary statements)</p>	<p>A number of other minor amendments were made to the financial statements relating to either revisions to disclosures of information, narrative changes or typing errors.</p>	<p>To ensure accuracy of the financial statements.</p>
<p>Various (No overall effect on the primary statements)</p>	<p>A number of amendments were made to the remuneration and staff report relating to either revisions to disclosures of information, narrative changes or typing errors.</p>	<p>To ensure accuracy of the remuneration and staff report.</p>

Appendix 4

Recommendations

We set out all the recommendations arising from our audit with management's response to them. We will follow these up next year and will include any outstanding issues in next year's audit report:

Exhibit 3: matters arising and recommendations

Matter arising 1 – Termination Payments	
Findings	<p>The approval of termination payments to staff is delegated from the Board to the Remuneration and Terms of Service (RATS) Committee.</p> <p>A termination payment of £15,000 was made during the year for which approval was provided by the Director of Workforce following consultation with HR and taking legal advice. We were informed that this was due to the need for an urgent decision and this falling between scheduled RATS meetings. The decision was taken to the next available RATS meeting for retrospective approval.</p> <p>Standing Orders allow for urgent matters that fall outside of Board meetings to be delegated to the Chair and Chief Executive supported by the Board Secretary and consulting two independent members. We consider that this process should have been followed.</p>
Priority	High
Recommendation	Termination payments should be approved in line with Standing Orders.
Benefits of implementing the recommendation	Improved governance and controls
Accepted in full by management	Accepted

Matter arising 1 – Termination Payments

Management response	There is a need to align the Scheme of Delegation with the Standing Orders to ensure that the RATS Committee remit is clear in relation to other matters of delegation to officers.
Implementation date	September 2023

Matter arising 2 – Audit of Property, Plant and Equipment

Findings	<p>We experienced some issues during our audit of Property, Plant and Equipment which has led to inefficiencies in this area of the audit. These included:</p> <ul style="list-style-type: none">• difficulties with the quality of and/or obtaining some working papers/supporting evidence for elements of PPE we were testing;• absence of key staff during audit either due to leave and/or other work commitments;• delays in responses to queries; and• a number of errors which either led to amendments to the accounts and/or a need for us to undertake additional audit work and sample testing.
Priority	High
Recommendation	The Health Board should ensure that appropriate resource is provided to support the production of and audit of Property, Plant and Equipment elements of the financial statements.
Benefits of implementing the recommendation	Improved efficiency of the audit process

Matter arising 2 – Audit of Property, Plant and Equipment

Accepted in full by management	For the 2022-23 accounts, there was a significant increase in the workload of the capital accounting team resulting in longer hours of work. The Health Board had to take into consideration the wellbeing of its staff in allowing them brief periods of leave after working a number of consecutive weekends. However, the Health Board does recognise that there were also issues with the quality of the supporting papers and adjustments required to the final accounts.
Management response	The Health Board has agreed that a vacant post within the overall Finance Director establishment, currently aligned to Strategic Financial Planning will be diverted to provide additional support into the capital accounting team on a permanent basis, thus mitigating some of the issues experienced in 2022-23. There will also be a debrief with Audit Wales scheduled for September 2023 to share the learning from the 2022-23 Audit.
Implementation date	Agreed in June 2023 and now going through the recruitment process.



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We welcome correspondence and telephone calls in Welsh and English.
Rydym yn croesawu gohebiaeth a galwadau ffôn yn Gymraeg a Saesneg.