

Mrs Tracy Myhill
Chief Executive
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Reference: Covid-19/AuditPlan/SBUHB

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Dear Tracy,

Annual Audit Plan 2020 – Impact of COVID-19

The COVID-19 national emergency has had an unprecedented impact on the UK and will significantly impact on public bodies' preparation of the 2019-20 accounts and our audit work, both financial audit and performance audit.

Due to the UK Government's restrictions on movement and anticipated sickness absence levels, we understand that many public bodies will not be able to prepare accounts in line with the timetables set out.

Alongside the delivery of the Auditor General's statutory responsibilities, our priority is to ensure the health, safety and well-being of Audit Wales staff, their families and those of our partners elsewhere in the public service at this incredibly challenging time.

In response to the government advice and subsequent restrictions, we have ceased on all on site work at audited bodies and our own offices have closed. Audit Wales staff are working from home and we will continue to make whatever progress we can whilst working and engaging with you remotely.

We commit to ensuring that our audit work will not have a detrimental impact on you at a time when public bodies are stretched and focused on dealing with the COVID-19 national emergency.

Amendments to the audit plan agreed at the Audit Committee 12th March 2020

Timetable

In light of the above, the audit plan issued to you on 12th March 2020 will need to be amended.

In respect of our financial audit work, we are aware that Welsh Government have revised draft accounts preparation and submission deadlines to 22 May and 30 June respectively, although these will continue to be under review. Achieving legislative deadlines for preparation of draft accounts (31 August 2020) and audit (some four months after draft submission) are not currently thought likely to be problematic.

We will need to discuss amended timetables for the audit of accounts with you but will continue to work as flexibly as we can.

Our annual audit plan also set out a programme of performance audit work at the Health Board. We will make as much progress as possible with these activities by working remotely. However, the cessation of on-site work will have an inevitable impact on the delivery of our performance audit work. We are keeping this under on-going review and will communicate further information on revised timings and performance audit outputs when more is known about the duration of the COVID-19 restrictions and the wider impact of the outbreak on the NHS.

Audit risks

As a result of the COVID-19 national emergency, we need to update our assessment of audit risks. The following schedule replaces Exhibit 2 in the 2020 audit plan.

Exhibit 2: financial audit 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].	My audit team will: <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.

Financial audit risks	Proposed audit response
<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.

Financial audit risks	Proposed audit response
<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 £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>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 explaining the 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 could be materially misstated.</p>	<p>My audit team will audit Continuing Healthcare expenditure and ensure the correct accounting treatment.</p>
<p>Impact of COVID-19</p> <p>The COVID-19 national emergency may see a significant delay in the preparation and audit of accounts. There is a risk that the quality of the accounts and supporting working papers e.g. around estimates and valuations, may be compromised leading to an increased incidence of errors.</p> <p>Quality monitoring arrangements may be compromised due to timing issues and/or resource availability.</p>	<p>We will discuss your closedown process and quality monitoring arrangements with the accounts preparation team and make arrangements to monitor the accounts preparation process. We will help to identify areas where there may be gaps in arrangements.</p>
Other areas of audit attention	
<p>Bridgend Boundary Transfer</p> <p>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</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>

Financial audit risks	Proposed audit response
<p>(ABM UHB) to Cwm Taf University Health Board (CT UHB).</p> <p>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>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 arrangements for clinical staff.</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>New accounting standards</p> <p>IFRS 16 was scheduled to replace the current leases standard IAS 17 in 2020-21. In light of COVID-19, this has now been deferred by the Welsh Government to 2021-22, but the new standard may pose some implementation risks for the health board.</p> <p>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 roll forward any knowledge gained through audit work already undertaken to assess the Health Board's preparedness for the introduction of the new standard to our 2021-22 audit planning.</p>

We will provide further updates as and when necessary. In the meantime, if you have any questions, please don't hesitate to contact myself or another member of our audit team.

Yours sincerely



David Thomas

Engagement Director