

2021 Audit Plan – Swansea Bay University Health Board

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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 levels at which I judge such misstatements to be material will be reported to the Audit Committee prior to completion of the audit.

- 8 Any misstatements below a trivial level (set at 5% of materiality) I judge as not requiring consideration by those charged with governance and therefore will not report them.
- 9 I will also report on your charitable funds' accounts which will be undertaken in accordance with the timescales agreed with the Board and the Charity Commission.
- 10 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

- 11 The following table sets out the significant risks that have been identified for the audit of your financial statements.

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>The 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; • evaluate the rationale for any significant transactions outside the normal course of business; • add additional procedures to address any specific risks of management override which are not addressed by the mandatory work above
There is a significant risk that you will fail to meet your first financial duty to break even over a three-year period. The position at month 10 shows a year-to-date deficit of £20.6m and a forecast year-end deficit of £24.5m. This	We will continue to monitor the Health Board's financial position for 2020-21 and the cumulative three-year position to 31 March 2021, for the both revenue and capital-resource limits.

Financial audit risks	Proposed audit response
<p>combined with the outturns for 2018-19 and 2019-20, predicts a three-year deficit position.</p> <p>Where you fail this financial duty, we will place a substantive report on the financial statements highlighting the failure and qualify your regularity opinion.</p> <p>Your current financial pressures increase the risk that management judgements and estimates could be biased in an effort to achieve the agreed forecast deficit.</p>	<p>My audit team will also focus its testing on areas of the financial statements which could contain reporting bias.</p>
<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>We will discuss your closedown process and quality monitoring arrangements with the accounts preparation team and monitor the accounts preparation process. We 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>We 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 we included an</p>	<p>We will review the evidence one year on around the take up of the scheme and the need for a provision, and the</p>

Financial audit risks	Proposed audit response
<p>Emphasis of matter paragraph in the 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 Public Monies.</p>	<p>consequential impact on the regularity opinion.</p>
<p>The Bay Studios and Llandarcy field hospitals will be cumulatively material to the financial statements. The Llandarcy hospital was decommissioned late in 2020 with the Bay Studios hospital expected to be decommissioned in the summer of 2021. The novel and complex nature of this project, together with its high value, does give rise to an inherent risk of misstatement in the financial misstatements.</p>	<p>We have regularly engaged with the Health Board to keep abreast of the field hospital projects and the proposed accounting treatment. The hospitals will form a key part of my testing of the financial statements and the annual governance statement.</p>
<p>If the Health Board's inventory balances in the financial statements are material and we are unable to attend parts of the Health Board's count of its inventories, it is likely that we would issue a qualified limitation of scope opinion. This qualification would be necessary because we would have been unable to obtain sufficient appropriate audit evidence to support a material balance in the financial statements.</p> <p>It is important to emphasise to you that qualification would not be due to shortcomings in the Health Board's systems or actions, but because of the impact of COVID-19 on one of our key audit procedures.</p>	<p>I will continue to assess the impact of the COVID-19, and lockdown arrangements, on my audit of the Health Board's year-end inventory.</p>

Financial audit risks	Proposed audit response
Other areas of audit attention	
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.	We will undertake some early work to review preparedness for the introduction of IFRS 16 Leases. See Appendix 2 Exhibit 7 for more detail.
Certain disclosures in the Remuneration Report, such as the remuneration of senior officers and independent members, are subject to audit with a lower level of materiality applied. The disclosures are therefore inherently more prone to material misstatement and therefore a key area of audit attention.	We will audit the Remuneration Report to verify that the Health Board has reflected all known changes to senior positions, and that the disclosures are complete and accurate.

Performance audit work

- 12 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.
- 13 Where appropriate, I will also take opportunities to assess the extent to which the Health Board is acting in accordance with the sustainable development principle¹ 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.
- 14 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

¹ 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'

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
NHS Structured Assessment	<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. 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>
All Wales Thematic Reviews	<p>Unscheduled care arrangements</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. 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> <p>COVID-19 related outputs</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</p>

Theme	Approach/key areas of focus
	review and will be reflected in the regular updates that are produced for the audit committee.
Locally focused work	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.
Implementing previous audit recommendations	My structured assessment work will include a review of the arrangements that are in place to track progress against previous audit recommendations. This allows the audit team 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.

- 15 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

- 16 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 document²;
 - appropriate facilities and access to documents are provided to enable my team to deliver our audit in an efficient manner;

² The agreed audit deliverables documents set out the expected working paper requirements to support the financial statements and include timescales and responsibilities.

- 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;
- Internal Audit's planned programme of work is complete, and management has responded to issues that may have affected the financial statements.

Fee

- 17 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.
- 18 The fee letter will be presented to you at your next meeting. 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. We shall make no changes without first discussing them with the Director of Finance.
- 19 Further information on my fee scales and fee setting can be found on our website.

Audit team

- 20 The main members of the audit team, together with their contact details, are summarised in **Exhibit 4**.

Exhibit 4: 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	dave.thomas@audit.wales
Anthony Veale	Audit Director (Financial Audit)	02920 320585	anthony.veale@audit.wales

Name	Role	Contact number	E-mail address
Jason Blewitt	Audit Manager (Financial Audit)	02920 320700	jason.blewitt@audit.wales
Anne Beegan	Audit Manager (Performance Audit)	02920 829341	anne.beegan@audit.wales
Daniel King	Audit Lead (Financial Audit)	02920 829373	daniel.king@audit.wales

- 21 There is one potential independence issue that I need to bring to your attention. Dave Thomas's sister-in-law works as an informatics project manager within the Health Board. Appropriate restrictions on audit practice have been identified to mitigate any audit independence risks arising from this.

Timetable

- 22 The key milestones for the work set out in this plan are shown in [Exhibit 5](#). As highlighted earlier, there may be a need to revise the timetable in light of developments with COVID-19.

Exhibit 5: Audit timetable

Planned output	Work undertaken	Report finalised
2021 Audit Plan	December 2020 to January 2021	February 2021
Audit of Financial statements work: <ul style="list-style-type: none"> Audit of Financial Statements Report Opinion on Financial Statements 	January to June 2021 September 2021	June 2021 October 2021

<ul style="list-style-type: none"> • Audit of Charitable Funds financial statements report • Opinion on Charitable Funds Financial Statements 		
Performance audit work: <ul style="list-style-type: none"> • Structured Assessment • Unscheduled Care • COVID-19 outputs • Local project work 	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 January 2022	February 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 6: 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.
Radiology Follow Up	Not yet started	Due to the COVID-19 pandemic, this local work has been paused until March 2021.

Appendix 2

Other future developments

Forthcoming key IFRS changes

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

Exhibit 7: 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. We are 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

Website: www.audit.wales

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