

2022 Audit Plan – Cwm Taf Morgannwg University Health Board

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This document is also available in Welsh.

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2022 Audit Plan

About this document

- 1 This document sets out the work I plan to undertake during 2022 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 has had an unprecedented impact on the United Kingdom and the work of public sector organisations. While Wales is currently at Coronavirus Alert Level 0, Audit Wales will continue to monitor the position and will discuss the implications of any changes in the position with your officers.

Audit of financial statements

- 3 I am required to issue a report on the Health Board's financial statements¹ which includes an opinion on their 'truth and fairness' and the regularity of income and expenditure. I lay them before the Senedd together with any report that I make on them. 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 other information presented with the financial statements are prepared in line with guidance and consistent with the financial statements.
- 4 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.
- 5 I do not seek to obtain absolute assurance on the truth and fairness of the financial statements and related notes but adopt a concept of materiality. My aim is to identify material misstatements, that is, those that might result in a reader of the accounts being misled. The quantitative level at which I judge such misstatements to be material for the Health Board is around £13 million². I review my levels of materiality throughout the audit, for example when the Health Board presents me with this year's draft financial statements on 29 April 2022. The levels at which I judge such misstatements to be material, which can change, will also be reported to the Audit Committee and Board on 13 June, prior to the completion of my audit.

¹ My audit examination and review cover the Health Board's Performance Report, Accountability Report and Financial Statements which, once certified, I lay before the Senedd as one document.

² This figure is based, for now, on the 2020-21 financial statements.

- 6 Whether I judge an item to be material is also be affected by certain qualitative issues such as legal and regulatory requirements, or areas of the financial statements that I consider to be of particular interest to the reader that I therefore judge to be sensitive. I currently set significantly lower levels of materiality for the remuneration of senior officers and independent members, exit packages, and related-party disclosures. I review my areas and levels of lower materiality throughout the audit.
- 7 I judge any misstatements below a trivial level (set at 5% of materiality) as not requiring consideration by those charged with governance and I therefore will not report them.
- 8 I also audit your charitable funds' accounts. I provide a separate audit plan and audit fee for this audit, which I will be presenting to the Board of Trustee Members.
- 9 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

- 10 The following table sets out the significant risks that my planning and testing have identified, to date, for the audit of your financial statements.

Exhibit 1: audit of financial statement risks

| Financial audit risks | Proposed audit response |
|---|--|
| Significant risks | |
| <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>I 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; and • add additional procedures to address any specific risks of management override which are not addressed by the mandatory work above. |

| Financial audit risks | Proposed audit response |
|--|---|
| <p>Under the NHS Finance (Wales) Act 2014, health boards ceased to have annual resource limits with effect from 1 April 2014. Health boards instead moved to a rolling three-year resource limit for both revenue and capital. The first three-year period ran to 31 March 2017.</p> <p>For 2021-22 and the three years to 31 March 2022, Health Board forecasts³ to operate within its revenue and capital resource limits, subject to anticipated 2021-22 COVID-19 funding of £19.8 million from the Welsh Government. If the Health Board receives the anticipated funding, and maintains its forecast position, it would support an unqualified regularity opinion.</p> <p>Your current financial pressures do, however, increase the risk that management's judgements and estimates could be biased in an effort to achieve the financial duty.</p> | <p>I will continue to monitor the Health Board's financial position for 2021-22 and the cumulative three-year position to 31 March 2022.</p> <p>This review will also consider the impact of any relevant uncorrected misstatements over the three years.</p> <p>If the Health Board fails to meet the three-year resource limits for revenue and/or capital, I would expect to qualify my regularity opinion on the 2021-22 financial statements. I would also expect to place a substantive report on the statements to explain the basis of the qualification and the circumstances under which it had arisen.</p> |
| <p>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 'emphasis of matter' paragraph in the audit opinion drawing attention to your disclosure of the contingent liability. Applications to the scheme will close on 31 March 2022, and if any expenditure is made in-year, I would consider it to be irregular as it contravenes the requirements of Managing Welsh Public Money.</p> | <p>I will review the evidence one year on around the take-up of the scheme and the need for a provision, and the consequential impact on the regularity opinion.</p> |

³ Based on the Month 11 year-end forecast, which the Health Board has reported to the Welsh Government.

| Financial audit risks | Proposed audit response |
|---|---|
| <p>While COVID-19 restrictions are due to be removed in Wales on 28 March 2022, there have been ongoing pressures on staff resource and of remote working that may impact on the preparation, audit and publication of the financial statements. There is a risk that the quality of the accounts and supporting working papers may be compromised, leading to an increased incidence of errors.</p> | <p>I continue to discuss your closedown process and quality monitoring arrangements with the relevant officers.</p> |
| <p>There continues to be increased funding streams and expenditure in 2021-22 to deal with the COVID-19 pandemic. They could have a significant impact on the risks of material misstatement and the shape and approach to our audit. Examples of issues include: fraud, error and regularity risks of additional spend; valuation (including obsolescence) of year-end inventory, including PPE; and the estimation of year-end annual leave balances.</p> | <p>I will identify the key issues and associated risks and plan my work to obtain the assurance needed for my audit.</p> |
| <p>I audit some of the disclosures in the remuneration report to a far lower level of materiality, such as the remuneration of senior officers and independent members. The disclosures are therefore inherently more prone to material misstatement. In past audits I have identified material misstatements in the draft remuneration report submitted for my audit, which the Health Board had to correct. I therefore judge the 2021-2022 disclosures to be at risk of misstatement.</p> <p>There is also the risk, as reported last year, that the Health Board remunerates senior officers above the Welsh Government's pay bands, but without the Welsh Government's formal approval to do so.</p> | <p>I will examine all entries in the remuneration report to verify that it is materially accurate, and that remuneration is at the appropriately approved levels.</p> |

| Financial audit risks | Proposed audit response |
|---|--|
| <p>I also audit the disclosure of related party transactions and balances to a far lower level of materiality. Last year I identified a number of material disclosures that had been omitted and had to be added.</p> | <p>I will verify that all the necessary signed declarations have been received, evaluated, and disclosed appropriately and accurately. My examinations also include other means of testing, such as my review of Companies House records using data analytics.</p> |
| Other areas of audit attention | |
| <p>Between May 2020 and June 2021, I undertook a significant level of additional audit testing of the Health Board's old current-liabilities. As a result of this work, and as reported last year, the Health Board wrote-off and removed a material value of its old liabilities. The Health Board's remedial work has continued into 2021-22.</p> | <p>I will be reviewing the new accounting principles and processes adopted, analysing the age profile of the year-end current liabilities, and testing the balances disclosed as at 31 March 2022.</p> |
| <p>The introduction of IFRS 16 Leases has been deferred to 1 April 2022. There may be considerable work required to identify leases and the COVID-19 national emergency may pose additional implementation risks. The 2021-22 accounts will need to disclose the potential impact of implementing the standard.</p> | <p>I will review the completeness and accuracy of the disclosures.</p> |

- 11 In addition to my responsibilities in respect of the audit of the Health Board's statutory financial statements, set out above, I am also required to certify a return to the Welsh Government which provides information to support its preparation of Whole of Government Accounts.

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 My work programme is informed by specific issues and risks facing the Health Board and the wider NHS in Wales. I have also taken account of the work that is being undertaken or planned by other external review bodies and by internal audit.
- 14 During 2020-21 I consulted public bodies and other stakeholders on how I will approach my duties in respect of the Well-being of Future Generations (Wales) Act 2015 for the period 2020-2025. In March 2021, I wrote to the 44 public bodies designated under the Act setting out my intentions, which include:
 - carrying out specific examinations of how public bodies have set their well-being objectives, and
 - integrating my sustainable development principle examinations within my local audit programme.
- 15 My auditors are liaising with the Health Board to agree the most appropriate time to examine the setting of well-being objectives.
- 16 **Exhibit 2** sets out my current plans for performance audit work in 2022.

Exhibit 2: my planned 2022 performance audit work at the Health Board.

| Theme | Approach/key areas of focus |
|---|--|
| <p>NHS Structured Assessment</p> | <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>My 2022 structured assessment work will review the corporate arrangements in place at the Health Board in relation to:</p> <ul style="list-style-type: none"> • Governance and leadership; • Financial management; • Strategic planning; and • Use of resources (such as digital resources, estates, and other physical assets). |
| <p>All-Wales Thematic work</p> | <p>As part of my 2022 plan, I intend to undertake an assessment of the workforce risks that NHS bodies are experiencing currently and are likely to experience in the future. It will examine how local and national workforce planning activities are being taken forward to manage those risks and address short-, medium- and longer-term workforce needs. I will tailor this work to align to the</p> |

| Theme | Approach/key areas of focus |
|--|--|
| | <p>responsibilities of individual NHS bodies in respect of workforce planning.</p> <p>I also plan to use an element of the 2022 audit fee to respond to aspects of service delivery where my insight and knowledge across Wales will provide value to NHS bodies. The exact focus of this work will be confirmed following a broader consultation on my overall programme of audit work for Audit Wales for 2022-23 and beyond (see paragraphs 18 and 19).</p> |
| Locally focused work | <p>Where appropriate, I will also undertake performance audit work that reflects issues specific to the Health Board. The main piece of locally focussed work this year will be a follow up to the joint review of quality governance arrangements in partnership with Healthcare Inspectorate Wales.</p> |
| Implementing previous audit recommendations | <p>My structured assessment work will include a review of the arrangements that are in place to track progress against previous audit recommendations. This allows 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.</p> |

- 17 In March 2022, I published a consultation inviting views to inform our future audit work programme for 2022-23 and beyond. In particular, it considers topics that may be taken forward through my national value for money examinations and studies and/or through local audit work across multiple NHS, central government, and local government bodies. As we develop and deliver our future work programme, we will be putting into practice key themes in our new five-year strategy, namely:
- the delivery of a strategic, dynamic, and high-quality audit programme; supported by
 - a targeted and impactful approach to communicating and influencing.
- 18 The possible areas of focus for future audit work that we set out in the consultation were framed in the context of three key themes from our [Picture of Public Services](#) analysis in autumn 2021, namely: a changing world; the ongoing pandemic; and

transforming service delivery. We also invited views on possible areas for follow-up work.

- 19 We will provide updates on the performance audit programme through our regular updates to the Audit Committee.

Fee, audit team and timetable

- 20 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 document⁴;
 - appropriate facilities and access to documents are provided to enable my team to deliver our audit in an efficient manner;
 - all appropriate officials will be available during the audit;
 - you have all the necessary controls and checks in place to enable the Accounting Officer to provide all the assurances that I require in the Letter of Representation addressed to me; and
 - Internal Audit's planned programme of work is complete, and management has responded to issues that may have affected the financial statements.

Fee

- 21 As set out in the [Audit Wales Fee Scheme](#), my fee rates for 2022-23 have increased by 3.7% as a result of the need to continually invest in audit quality and in response to increasing cost pressures. The previous increase to our fee rates was in 2016. The estimated fee for 2022 is set out in **Exhibit 3**, alongside the previous year's actual fees. This year's estimated fee represents a 1% increase.

Exhibit 3: audit fee

| Audit area | Proposed fee for 2022 (£) ⁵ | Actual fee for 2021 (£) |
|--------------------------------------|--|-------------------------|
| Audit of Financial Statements | £243,814 | £245,861 ⁶ |

⁴ The agreed audit deliverables documents set out the expected working paper requirements to support the financial statements and include timescales and responsibilities.

⁵ The fees shown in this document are exclusive of VAT, which is not charged to you.

⁶ The actual fee was £5,139 lower than the fee estimate of £251,000, and a rebate was provided to the Health Board.

Performance audit work:

| | | |
|--|-----------------|-----------------|
| • Structured Assessment | £52,418 | £63,806 |
| • All-Wales thematic review ⁷ | £72,463 | £73,894 |
| • Local projects | £48,075 | £29,157 |
| Performance work total | £172,956 | £166,857 |
| Total fee | £416,770 | £412,718 |

- 22 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.
- 23 [Further information on my fee scales and fee setting can be found on our website.](#)

Audit team

- 24 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 | Engagement Director (Performance Audit) | 02920 320604 | <u>dave.thomas@audit.wales</u> |
| Richard Harries | Audit Director (Financial Audit) | 029 2032 0640 | <u>richard.harries@audit.wales</u> |
| Mark Jones | Audit Manager (Financial Audit) | 02920 320631 | <u>mark.jones@audit.wales</u> |
| Darren Griffiths | Audit Manager (Performance Audit) | 02920 320 591 | <u>darren.griffiths@audit.wales</u> |

⁷ As detailed in the respective audit plans.

| Name | Role | Contact number | E-mail address |
|-------------|--------------------------------|-----------------|--|
| Steve Stark | Audit Lead (Financial Audit) | 02920 829347 | steve.stark@audit.wales |
| Sara Utley | Audit Lead (Performance Audit) | 02920 829399 | sara.utley@audit.wales |

25 We can confirm that team members are all independent of you and your officers.

Timetable

26 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 |
|---|---|---|
| 2022 Audit Plan | January to April 2022 | March 2022 |
| Audit of Financial statements work: <ul style="list-style-type: none"> • Audit of Financial Statements Report • Opinion on Financial Statements • Audit of Financial Statements Addendum Report | January to June 2021 | June 2022 June 2022 August 2022 |
| Performance audit work: <ul style="list-style-type: none"> • Structured Assessment • All-Wales thematic work • Local project work | Timescales for individual projects will be discussed with you and detailed within the specific project briefings produced for each study. | |

Staff secondment

- 27 An Audit Wales member of staff, Helen Seeby, is currently seconded to the Health Board for the period 13 December 2021 to 10 June 2022. Helen is working in the Finance Department and the ILG Directorate.
- 28 In order to safeguard against any potential threats to auditor independence and objectivity, the following restrictions apply in line with the Financial Reporting Council's Revised Ethical Standard 2019:
- the secondee will not undertake any line management or management responsibilities; and
 - the secondment is limited to no more than six months.



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