

Hywel Dda University Health Board – Detailed Audit Plan 2023

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About Audit Wales

Our aims and ambitions

Assure



the people of Wales that public money is well managed

Explain



how public money is being used to meet people's needs

Inspire



and empower the Welsh public sector to improve



Fully exploit our unique perspective, expertise and depth of insight



Strengthen our position as an authoritative, trusted and independent voice



Increase our visibility, influence and relevance



Be a model organisation for the public sector in Wales and beyond

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Introduction

I have now largely completed my planning work.

This Detailed Audit Plan specifies my statutory responsibilities as your external auditor and to fulfil my obligations under the Code of Audit Practice.

It sets out the work my team intends undertaking to address the audit risks identified and other key areas of focus during 2023.

It also sets out my estimated audit fee, details of my audit team and key dates for delivering my audit team's activities and planned outputs.



Adrian Crompton

Auditor General for
Wales

Audit of financial statements

I am required to issue a report on your financial statements which includes an opinion on their 'truth and fairness' and the regularity of income and expenditure. and the proper preparation of key elements of your Remuneration and Staff Report. I lay them before the Senedd together with any report that I make on them. I will also report by exception on a number of matters which are set out in more detail in our [Statement of Responsibilities](#).

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 is set out later in this plan.

I am also required to certify a return to the Welsh Government which provides information about the Health Board to support preparation of the Whole of Government Accounts.

There have been no limitations imposed on me in planning the scope of this audit.

Performance audit work

I must 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.

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.

My performance audit work is conducted using International Organisation of Supreme Audit Institutions (INTOSAI) auditing standards. INTOSAI is a global umbrella organisation for the performance audit community. It is a non-governmental organisation with special consultative status with the Economic and Social Council (ECOSOC) of the United Nations

Your audit at a glance



My financial statements audit will concentrate on your risks and other areas of focus

My audit planning has identified the following risks:

The current significant financial statement risks include:

- compliance with the rolling three-year resource limits under the NHS Finance (Wales) Act 2014;
- the valuation of the Health Board's estate;
- the accuracy of the remuneration report disclosures;
- the accuracy and completeness of the related party disclosures; and
- management override of the controls in place.

Other areas of audit focus:

- the introduction of the new accounting standard (IFRS16)¹ leases; and
- the accuracy of the annual leave accrual given weaknesses in the Health Boards' systems to capture annual leave balances.



My performance audit will include:

- Structured Assessment – core
- Structured Assessment – deep dive review of investment in digital
- All-Wales Thematic Review – planned care service recovery
- Local work – to be confirmed



Materiality

Materiality	£11.638 million
Reporting threshold	£0.582 million

¹ International Financial Reporting Standard 16.

Financial statements materiality



Materiality £11.638 million

My aim is to identify and correct material misstatements, that is, those that might otherwise cause the user of the accounts into being misled.

For planning purposes, materiality is calculated using:

- 2021-22 gross expenditure of £1,164 million
- Materiality percentage of 1%

I report to those charged with governance any misstatements above a trivial level (set at 5% of materiality).



Areas of specific interest

There are some areas of the financial statements that may be of more importance to the user of the financial statements, and I therefore set a lower materiality level. These areas are the:

- Remuneration report (including exit packages), £5,000, or lower if a misstatement results in the wrong remuneration-banding being disclosed for an individual;
- Related party disclosures for individuals, £10,000; and
- Outturn against the revenue and capital resource limits, £1.

Significant financial statements risks

Significant risks are identified risks of material misstatement for which the assessment of inherent risk is close to the upper end of the spectrum of inherent risk or those which are to be treated as a significant risk in accordance with the requirements of other ISAs. The ISAs require us to focus more attention on these significant risks. My planning to date has identified the following risks.

Exhibit 1: significant financial statement risks

Significant risk	Our planned response
<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 240.32-33].</p>	<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 bias; • evaluate the rationale for any significant transactions outside the normal course of business; and • add any additional procedures as required to address any specific risks of management override which are not addressed by the mandatory work above.
<p>Under the NHS Finance (Wales) Act 2014, health boards moved to a rolling three-year resource limit for both revenue and capital. For 2022-23 and the three years to 31 March 2023, the Health Board forecasts² to exceed its revenue resource limit by £59 million. This outcome could affect my regularity opinion, as the Health Board has experienced for some of its past financial years.</p>	<p>I will monitor the Health Board's financial position for 2022-23 and the cumulative three-year position to 31 March 2023.</p> <p>My 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 2022-23 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>

² Based on the Health Board's 'month 11' financial reporting to the Welsh Government.

Significant risk	Our planned response
<p>As stated above, for 2022-23 the Health Board expects to exceed its revenue resource limit by £59 million. The Health Board would have reported this forecast to the Welsh Government and would be expected to deliver this outturn position.</p>	<p>I will focus my testing on areas of the financial statements which could contain judgements such as provisions. We will also focus on year-end accruals with a focus on ensuring transactions have been reported in the correct accounting period.</p>
<p>The quinquennial valuation of the NHS estate took place as at 1 April 2022.</p> <p>There is a risk that assets are not valued on appropriate bases and that movements in the carrying values of assets are not appropriately accounted for and disclosed.</p> <p>Given the current economic climate, there is a further risk that the carrying values of assets have changed during 2022-23 and that 1 April 2022 valuations are materially misstated at the balance sheet date of 31 March 2023.</p>	<p>I will:</p> <ul style="list-style-type: none"> • consider the appropriateness of the work of the Valuation Office as a management expert; • test the appropriateness of asset valuation bases; • review a sample of movements in carrying values to ensure that movements have been accounted for and disclosed in accordance with the Welsh Government's Manual for Accounts; and • consider whether the carrying value of assets at 1 April 2022 remains materially appropriate or whether additional in-year adjustments are required due to the impact of current economic conditions.
<p>I audit some of the disclosures in the remuneration report to a far lower level of materiality, as set out on page 8. The disclosures are therefore more prone to material misstatement. I therefore judge the 2022-2023 disclosures to be at risk of misstatement.</p>	<p>I will examine all entries in the remuneration report to verify that they are materially accurate, and that remuneration is at the approved levels.</p>
<p>I also audit the disclosure of related party transactions and balances to a far lower level of materiality.</p>	<p>I will verify that all the necessary signed declarations have been received, evaluated, and disclosed appropriately and accurately.</p> <p>My examinations also include other means of testing, such as my review of Companies House records using data analytics.</p>

Other areas of focus

I set out other identified risks of material misstatement which, whilst not determined to be significant risks as above, I would like to bring to your attention.

Exhibit 2: other areas of focus

Audit risk	Our planned response
<p>A new accounting standard, IFRS16 Leases, has been introduced from 2022-23. The standard significantly changes how most leased assets are to be accounted for, with leased assets needing to be recognised as assets and liabilities in the Statement of Financial Position (the balance sheet).</p> <p>There are also significant additional disclosure requirements specific to leased assets that need to be reflected in the financial statements.</p>	<p>I will:</p> <ul style="list-style-type: none"> • consider the completeness of the lease portfolios identified by the Health Board, as needing to be included in IFRS16 calculations; • review a sample of calculated asset and liability values and ensure that these have been accounted for and disclosed in accordance with the new requirements; and • ensure that all material disclosures have been made.
<p>In 2020-21 and 2021-22 we identified weaknesses in the Health Boards' systems to capture annual leave balances for the calculation of the year end annual leave accrual. The annual leave accrual balance is likely to be material again for 2022-23.</p>	<p>We will review the work undertaken by the Health Board to improve the systems to capture year end annual leave balances and undertake detailed testing of the related balances and disclosures in the accounts.</p>
<p>Last year, I qualified my regularity opinion in respect of clinician's pension tax compensation scheme and placed a substantive report on the financial statements explaining my rationale.</p> <p>For 2022-23, whilst any transactions included in the Health Board's financial statements strictly remain irregular, I am not classifying these as material by their nature. I consider that a further qualification of my regularity opinion would have diminished value particularly against the backdrop of the Chancellor of the Exchequer abolishing the Lifetime Allowance in his March 2023 budget statement.</p>	<p>No further action required</p>

Financial statements audit timetable

I set out below key dates for delivery of my accounts audit work and planned outputs.

Exhibit 3: key dates for delivery of planned outputs

Planned output	Work undertaken	Report finalised
2023 Outline Audit Plan	March 2023	April 2023
2023 Detailed Audit Plan	March - May 2023	May 2023
Audit of financial statements work: <ul style="list-style-type: none">• Audit of Financial Statements Report• Opinion on the Financial Statements	May - July 2023	July 2023

Planned performance audit work

I set out below details of my performance audit work and key dates for delivery of planned outputs.

Exhibit 4: key dates for delivery of planned outputs

Theme	Approach	Key dates
Structured Assessment - core	<p>Structured assessment will continue to form the basis of the work my audit teams do at each NHS body to examine the existence of proper arrangements for the efficient, effective, and economical use of resources. My 2023 structured assessment work will review the following core areas:</p> <ul style="list-style-type: none"> • Board and committee cohesion and effectiveness; • Corporate systems of assurance; • Corporate planning arrangements; and • Corporate financial planning and management arrangements. <p>My structured assessment work will also 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>	Fieldwork to commence between June and August 2023 with reporting by the end of October 2023.
Structured Assessment - deep dive review of investment in digital	<p>In addition to the core structured assessment work described above, my audit teams will also review certain arrangements at NHS bodies in more depth. This year, my audit teams will examine digital arrangements, with a particular focus on how NHS bodies are investing in digital technologies, solutions, and capabilities to support the workforce, transform patient care, meet demand, and improve productivity and efficiency.</p>	Fieldwork to commence during the autumn of 2023 and reporting by April 2024.

Theme	Approach	Key dates
All Wales thematic review of planned care service recovery	<p>I plan to undertake work following on from my national report on tackling the planned care backlog. Whilst the exact focus of this work is still to be determined, it is likely to consider:</p> <ul style="list-style-type: none"> • The extent that health boards have achieved Welsh Government targets for recovering planned care services; • The efficacy of local plans and activity to recover waiting lists; and • Use of the additional Welsh Government financial allocations to improve waiting lists. 	<p>Fieldwork to commence between November and December 2023 and reporting by April 2024.</p>
Local project work	<p>Where appropriate, my audit team will also undertake performance audit work that reflects issues specific to the Health Board. The precise focus of this work will be agreed with executive officers and communicated to the Audit and Risk Assurance Committee.</p>	<p>Fieldwork and reporting timescale to be confirmed</p>

Fee and audit team

In January 2023 I published the [fee scheme](#) for the 2023-24 year as approved by the Senedd Finance Committee. My fee rates for 2023-24 have increased by 4.8% for inflationary pressures. In addition, my financial audit fee has a further increase of 10.2% for the impact of the revised auditing standard ISA315 on my financial audit approach. More details of the revised auditing standard and what it means for the audit I undertake is set out in **Appendix 1**.

I estimate your total audit fee will be **£392,540**. A breakdown of the audit fee is set out in **Exhibit 5**.

Our financial audit fee is based on the following assumptions:

- The agreed audit deliverables sets out the expected working paper requirements to support the financial statements and includes timescales and responsibilities.
- No matters of significance, other than as summarised in this plan, are identified during the audit.

Exhibit 5: breakdown of audit fee

Audit area	Proposed fee for 2023 (£) ³	Actual fee for 2022 (£)
Audit of Financial Statements⁴	£218,807	£191,426
Performance audit work:		
• Structured Assessment	£84,437	£81,702
• All-Wales thematic review	£45,541	£42,908
• Local projects	£43,755	£43,964
Performance audit work total	£173,733	£168,574
Total audit fee	£392,540	£360,000

Planning will be ongoing, and changes to my programme of audit work, and therefore my fee, may be required if any key new risks emerge. I shall make no changes without first discussing them with the Director of Finance and Board Secretary.

³ The fees shown in this document are exclusive of VAT, which is not charged to you.

⁴ There will be a separate audit plan and fee for the audit of the 2022-23 charity account.

The main members of my team, together with their contact details, are summarised in **Exhibit 6**.

Exhibit 6: my local audit team

Name	Role	Contact details
Anthony Veale	Engagement Director & Audit Director (Financial Audit)	anthony.veale@audit.wales 02920 320585
Dave Thomas	Audit Director (Performance Audit)	dave.thomas@audit.wales 02920 320604
Lucy Evans	Audit Manager (Financial Audit)	lucy.evans@audit.wales 02920 829317
Anne Beegan	Audit Manager (Performance Audit)	anne.beegan@audit.wales 02920 829341
Eleanor Ansell	Audit Lead (Financial Audit)	eleanor.ansell@audit.wales 02920 829327
Urvisha Perez	Audit Lead (Performance Audit)	urvisha.perez@audit.wales 02920 320610

I can confirm that my team members are all independent of the Health Board and your officers.

Staff secondment

To safeguard against any potential threats to auditor independence and objectivity, the following restrictions apply in line with the FRC's Revised Ethical Standard 2019:

- the secondee will not undertake any line management or management responsibilities; and
- the secondment will be for a maximum of six months for trainees and three months for non-trainees.

Audit quality

Our commitment to audit quality in Audit Wales is absolute. We believe that audit quality is about getting things right first time.

We use a three lines of assurance model to demonstrate how we achieve this. We have established an Audit Quality Committee to co-ordinate and oversee those arrangements. We subject our work to independent scrutiny by Quality Assurance Department (QAD)* and our Chair, acts as a link to our Board on audit quality. For more information see our [Audit Quality Report 2021](#).

Our People



The first line of assurance is formed by our staff and management who are individually and collectively responsible for achieving the standards of audit quality to which we aspire.

- Selection of right team
- Use of specialists
- Supervisions and review

Arrangements for achieving audit quality



The second line of assurance is formed by the policies, tools, learning & development, guidance, and leadership we provide to our staff to support them in achieving those standards of audit quality.

- Audit platform
- Ethics
- Guidance
- Culture
- Learning and development
- Leadership
- Technical support

Independent assurance



The third line of assurance is formed by those activities that provide independent assurance over the effectiveness of the first two lines of assurance.

- EQCRs
- Themed reviews
- Cold reviews
- Root cause analysis
- Peer review
- Audit Quality Committee
- External monitoring

* QAD is the quality monitoring arm of ICAEW.

Appendix 1

The key changes to ISA315 and the potential impact on your organisation

Key change	Potential impact on your organisation
More detailed and extensive risk identification and assessment procedures	<p>Your finance team and others in your organisation may receive a greater number of enquiries from my audit teams at the planning stage of the audit. Requests for information may include:</p> <ul style="list-style-type: none">• information on your organisation’s business model and how it integrates the use of information technology (IT);• information about your organisation’s risk assessment process and how your organisation monitors the system of internal control;• more detailed information on how transactions are initiated, recorded, processed, and reported. This may include access to supporting documentation such as policy and procedure manuals; and• more detailed discussions with your organisation to support the audit team’s assessment of inherent risk.
Obtaining an enhanced understanding of your organisation’s environment, particularly in relation to IT	<p>Your organisation may receive more enquiries to assist the audit team in understanding the IT environment. This may include information on:</p> <ul style="list-style-type: none">• IT applications relevant to financial reporting;• the supporting IT infrastructure (e.g., the network, databases);• IT processes (e.g., managing program changes, IT operations); and• the IT personnel involved in the IT processes. <p>Audit teams may need to test the general IT controls and this may require obtaining more detailed audit evidence on the operation of IT controls within your organisation.</p> <p>On some audits, my audit teams may involve IT audit specialists to assist with their work. My IT auditors may need to engage with members of your IT team who have not previously been involved in the audit process.</p>

Key change	Potential impact on your organisation
<p>Enhanced requirements relating to exercising professional scepticism</p>	<p>My audit teams may make additional inquiries if they identify information which appears to contradict what they have already learned in the audit.</p>
<p>Risk assessments are scalable depending on the nature and complexity of the audited body</p>	<p>The audit team's expectations regarding the formality of your organisation's policies, procedures, processes, and systems will depend on the complexity of your organisation.</p>
<p>Audit teams may make greater use of technology in the performance of their audit</p>	<p>My audit teams may make use of automated tools and techniques such as data analytics when performing their audit. My teams may request different information or information in a different format from previous audits so that they can perform their audit procedures.</p>

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