

Audit of Accounts Report – Hywel Dda University Health Board

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We intend to issue a qualified¹ audit report on your Accounts There are some issues to report to you prior to their approval.

Audit of Accounts Report

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¹ The true and fair opinion is unqualified but the regularity opinion is qualified

Audit of Accounts Report

Introduction

- 1 We summarise the main findings from our audit of your 2019-20 financial statements in this report.
- 2 We have already discussed these issues with Executive 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.
- 4 We set this level at £9.9 million for this year's audit.
- 5 There are some areas of the accounts that may be of more importance to the reader and we have set a lower materiality level for these, as follows:
 - Remuneration report / senior pay disclosure and exit packages £5,000
 - Related parties £10,000
- 6 We have now substantially completed this year's audit.
- 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. We have previously notified you of a potential threat to auditor independence and objectivity arising from a trainee secondment and confirm that the planned safeguards set out in our Audit Plan have operated as intended.

Impact of COVID-19 on this year's audit

- 8 The COVID-19 pandemic has had a significant impact on all aspects of our society and continues to do so. You are required by law to prepare accounts and it is of considerable testament to the commitment of your accounts team that you have succeeded in doing so this year in the face of the challenges posed by this pandemic. We are extremely grateful to the professionalism of the team in supporting us to complete our audit in such difficult circumstances.
- 9 The pandemic has unsurprisingly affected our audit and we summarise in **Exhibit 1** the main impacts. Other than where we specifically make recommendations, the detail in **Exhibit 1** is provided for information purposes only to help you understand the impact of the COVID-19 pandemic on this year's audit process.

Exhibit 1 – impact of COVID-19 on this year’s audit

| | |
|------------------------------|--|
| Timetable | <ul style="list-style-type: none">• The deadline for completing your accounts was changed by Welsh Government from 28 April 2020 to 29 May 2020.• We received the draft accounts on 1 May 2020.• Our deadline for completing our audit was changed from 29 May 2020 to 26 June 2020.• We expect your audit report to be signed on 2 July 2020. |
| Electronic signatures | If still necessary at the time of approval and signing we will accept electronic signatures and electronic transfer of files. |
| Audit evidence | As in previous years we received the majority of audit evidence in electronic format. We have used various techniques to ensure its validity. Where we have been unable to obtain access to paper documents, eg personnel files because of COVID-19 restrictions we have devised alternative audit methodologies to obtain sufficient audit evidence. For testing of existence and ownership of assets we have used a combination of visual identification, (where this was practical), independent online news articles and access to our land registry tool. |

- 10 We will be reviewing what we have learned for our audit process from the COVID-19 pandemic and whether there are innovative practices that we might adopt in the future to enhance that process.

Proposed audit opinion

- 11 We intend to issue a qualified² audit opinion on this year’s accounts once you have provided us with a Letter of Representation based on that set out in **Appendix 1**.
- 12 We issue a ‘qualified’ audit opinion where we have material concerns about some aspects of your accounts; otherwise we issue an unqualified opinion.
- 13 Our proposed audit report is set out in **Appendix 2**. This includes, as in previous years, a qualified opinion on regularity along with a substantive report explaining the reasons for that qualification.
- 14 The report also includes an emphasis of matter, drawing the reader’s attention to Note 21 of the accounts. This note describes the impact of a Ministerial Direction

² The true and fair opinion is unqualified but the regularity opinion is qualified

issued on 18 December 2019 to the Permanent Secretary of the Welsh Government, instructing her to fund NHS Clinicians’ pension tax liabilities incurred by NHS Wales bodies in respect of the 2019-20 financial year. The Health Board has disclosed the existence of a contingent liability at 31 March 2020, and my opinion is not modified in respect of this matter.

- 15 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.

Significant issues arising from the audit

Uncorrected misstatements

- 16 There are no misstatements identified in the accounts, which remain uncorrected.

Corrected misstatements

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

Other significant issues arising from the audit

- 18 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 was an issue arising in these areas this year as shown in **Exhibit 2**:

Exhibit 2 – significant issues arising from the audit

| Significant issues arising from the audit | | |
|---|---|--|
| <p>Contingent liability and emphasis of matter paragraph in audit report</p> | <p>I have requested that the Health Board includes in Note 21- Contingent liabilities- the narrative set out below.</p> <p>I have also drawn the reader’s attention to this disclosure in an emphasis of matter paragraph in my audit report. My opinion is not modified in respect of this matter.</p> | |

Significant issues arising from the audit

| | | |
|--|--|---|
| | <p><i>Clinicians who are members of the NHS Pension Scheme and who, as a result of work undertaken in this tax year (2019/20), face a tax charge in respect of the growth of their NHS pension benefits above their pension savings annual allowance will be able to have this charge paid by the NHS Pension Scheme. This is known as “scheme pays”. In December 2019 the Welsh Government issued a ministerial direction committing it to cover the cost of such an arrangement.</i></p> <p><i>At the date of publication of these accounts, there was no evidence of take-up of the scheme in 2019-20 and no information to make a reasonable assessment of future take up. However, the deadline for initial nomination is not until 31 July 2021. As such, it is not possible to make a reliable estimate of the potential cost to the Health Board.</i></p> <p>This arrangement is for a purpose contrary to Health Board powers, ie on individuals’ tax affairs, and such expenditure, if incurred, would be irregular.</p> | |
| <p>Orthodontic accrual and contingent liability</p> | <p>From our review of documentation relating to the new orthodontic dental contract and discussion with Welsh Government officials, it is unclear whether there is a need for the Health Board to accrue for orthodontic treatment outstanding at 31 March 2020.</p> <p>The Health Board recently went out to tender for its orthodontic work and new contractors were appointed from 1 April 2020. The contract ratification document signed at the time included a financial risk noting that patients currently in treatment with the</p> | <p>See Recommendation 1, Exhibit 4</p> |

Significant issues arising from the audit

incumbent provider would transition to the new providers part way through treatment resulting in potential for the Health board to pay for the full course of treatment a second time.

However, documentation provided subsequently by Welsh Government provides an alternative interpretation, stating that there is an incorrect assumption that orthodontic contracts are 'cost per case' contracts, in which the NHS pays in advance when the appliance is fitted. The documentation suggests that an orthodontic provider is paid an annual "salary" in 12 instalments to provide an agreed level of orthodontic care and treatment during that year. This means that at any time an orthodontic contract is taken over by another provider, the previous provider has been paid in full to the end of the contract and the new provider inherits a full case load. Assessments and case completions occur from day one and need to be replaced with new work, i.e. Units of Activity towards the annual obligation. Hence there is no second payment required for the same work.

Given the lack of clarity on this issue and since the amount involved is not significant, we have accepted the inclusion of an accrual of £693,000 and an equivalent contingent liability disclosure in the Health Board's 2019-20 accounts.

Qualification of the regularity opinion

The Auditor General's substantive report in **Appendix 2** outlines the statutory financial duties in the NHS, and the fact that the Health Board did not meet its financial duty to have an

Significant issues arising from the audit

| | | |
|--|--|--|
| | approved three-year integrated medium-term plan for the period 2019-20 to 2021-22. The report also identifies that for 2019-20, the Health Board did not meet its revenue resource allocation over the three-year period ending 2019-20. | |
|--|--|--|

Recommendations

- 19 The recommendations arising from our audit are set out in **Appendix 4**. Management has responded to them 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

Hywel Dda ULHB letterhead

Auditor General for Wales

Wales Audit Office

24 Cathedral Road

Cardiff

CF11 9LJ

23 June 2020

Representations regarding the 2019-20 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 Hywel Dda university Health Board for the year ended 31 March 2020 for the purpose of expressing an opinion on their truth and, 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, 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 Hywel Dda university 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.

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 Hywel Dda university 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.

Significant assumptions used in making accounting estimates, including those measured at fair value, are reasonable.

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

The financial statements are free of material misstatements, including omissions. 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. any additional representations requested from the audited body; and/or

Representations by Hywel Dda university Health Board

We acknowledge that the representations made by management, above, have been discussed with us.

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 Hywel Dda university Health Board on 23 June 2020.

We confirm that we have taken all the steps that we ought to have taken in order 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

Date:

Signed by:

Board Chair

Date:

Appendix 2

Proposed Audit Report

The Certificate and independent auditor's report of the Auditor General for Wales to the Senedd

Report on the audit of the financial statements

Opinion

I certify that I have audited the financial statements of Hywel Dda University Local Health Board for the year ended 31 March 2020 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 Tax Payers' 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 HM Treasury's Financial Reporting Manual based on International Financial Reporting Standards (IFRSs).

In my opinion the financial statements:

- give a true and fair view of the state of affairs of Hywel Dda University Local Health Board as at 31 March 2020 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.

Basis for opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing in the UK (ISAs (UK)). My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. I am 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 opinion.

Emphasis of matter

I draw attention to Note 21 of the financial statements, which describes the impact of a Ministerial Direction issued on 18 December 2019 to the Permanent Secretary of the Welsh Government, instructing her to fund NHS Clinicians' pension tax liabilities

incurred by NHS Wales bodies in respect of the 2019-20 financial year. The Health Board has disclosed the existence of a contingent liability at 31 March 2020. My opinion is not modified in respect of this matter

Conclusions relating to going concern

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Chief Executive has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the board's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The Chief Executive is responsible for the other information in the annual report and accounts. The other information comprises the information included in the annual report other than the financial statements and my auditor's report thereon. 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.

In connection with my audit of the financial statements, my responsibility is to read the other information to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies, I consider the implications for my report.

Qualified opinion on regularity

In my opinion, except for the irregular expenditure of £139.811 million explained in the paragraph below, in all material respects, 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.

Basis for qualified opinion on regularity

The Health Board has breached its resource limit by spending £139.811 million over the £2,489.832 million that it was authorised to spend in the three-year period 2017-18 to

2019-20. This spend constitutes irregular expenditure. Further detail is set out in the attached Report.

Report on other requirements

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 there under by Welsh Ministers.

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

- the information given in the Annual Governance Statement] for the financial year for which the financial statements are prepared is consistent with the financial statements and the Annual Governance Statement has been prepared in accordance with Welsh Ministers' guidance;
- the information given in the Accountability Report for the financial year for which the financial statements are prepared is consistent with the financial statements and the Accountability Report has been prepared 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 Accountability Report or the Annual Governance Statement.

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

- proper accounting records have not been kept;
- the financial statements 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; or
- I have not received all the information and explanations I require for my audit.

Report

Please see my Report below.

Responsibilities

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 set out on pages 13 and 14 of the Accountability Report, the Directors and the Chief Executive are responsible for the preparation of financial statements which give a true and fair view and for such internal control as the Directors and Chief Executive determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors and Chief Executive are responsible for assessing the board's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

Auditor's responsibilities for the audit of the financial statements

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.

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.

Responsibilities for regularity

The Chief Executive is responsible for ensuring the regularity of financial transactions.

I am 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.

Adrian Crompton
Auditor General for Wales
2 July 2020

24 Cathedral Road
Cardiff
CF11 9LJ

Report of the Auditor General to the Senedd

Introduction

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

For 2019-20 Hywel Dda University Local Health Board (the LHB) failed to meet both the first and the second financial duty and so I have decided to issue a narrative report to explain the position.

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 fourth three-year period under this duty is 2017-18 to 2019-20, and so it is measured this year for the fourth time.

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 £2,489.832 million by £139.811 million.

Where an LHB does not balance its books over a rolling three-year period, any expenditure over the resource allocation (i.e. 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.

Failure of the second financial duty

The **second financial duty** requires LHBs to prepare and have approved by the Welsh Ministers a rolling three-year integrated medium-term plan. This duty is an essential foundation to the delivery of sustainable quality health services. An LHB will be deemed to have met this duty for 2019-20 if it submitted a 2019-20 to 2021-22 plan approved by its Board to the Welsh Ministers who then approved it by the 30th June 2019.

As shown in Note 2.3 to the Financial Statements, the LHB did not meet its second financial duty to have an approved three-year integrated medium-term plan in place for the period 2019-20 to 2021-22.

Adrian Crompton
Auditor General for Wales
2 July 2020

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 3: summary of corrections made

| Value of correction | Nature of correction | Reason for correction |
|---------------------|---|---|
| £17.529 million | The additional £17.529 million for pension costs paid by Welsh Government was not separately disclosed in the SOCITE, cash flow statement and notes 18,27 and 28. | Correct disclosure of the pension costs originally settled by Welsh Government. |
| Not applicable | Additional narrative in Note 21 to describe the potential impact of a decision to fund NHS Clinicians' pension tax liabilities. | To describe a contingent liability which could be material by nature. |
| £693,000 | Additional contingent liability to supplement the orthodontic accrual. | Full disclosure of the orthodontic contingent liability. |
| Various amounts | Minor amendments to the remuneration report. | To ensure senior manager's remuneration is correctly disclosed. |

Appendix 4

Recommendations

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

Exhibit 4: matter arising 1

| Matter arising 1 – Orthodontic accrual £693,000 | |
|---|---|
| Findings | <p>From our review of documentation relating to the new orthodontic dental contract and discussion with Welsh Government officials, it is unclear whether there is a need for the Health Board to accrue for orthodontic treatment outstanding at 31 March 2020.</p> <p>The Health Board recently went out to tender for its orthodontic work and new contractors were appointed from 1 April 2020. The contract ratification document signed at the time included a financial risk noting that patients currently in treatment with the incumbent provider would transition to the new providers part way through treatment resulting in potential for the Health board to pay for the full course of treatment a second time. However, documentation provided subsequently by Welsh Government provides an alternative interpretation, stating that there is an assumption that orthodontic contracts are 'cost per case' contracts, in which the NHS pays in advance when the appliance is fitted. However, the position is that an orthodontic provider is paid an annual "salary" in 12 instalments to provide an agreed level of orthodontic care and treatment during that year. This means that at any time an orthodontic contract is taken over by another provider, the previous provider has been paid in full to the end of the contract and the new provider inherits a full case load. Assessments and case completions occur from day one and need to be replaced with new work, i.e. Units of Activity towards the annual obligation and hence there is no second payment required for the same work.</p> <p>However, given the lack of clarity on this issue and since the amount involved is not significant, we have accepted</p> |

Matter arising 1 – Orthodontic accrual £693,000

| | |
|--|---|
| | the inclusion of an accrual and contingent liability disclosure in the Health Board's 2019-20 accounts. |
| Priority | Low |
| Recommendation | <ol style="list-style-type: none">1. The Health Board should negotiate with the new orthodontic suppliers to ensure orthodontic work for patients part way through their treatment is provided at the best value for the Health Board.2. The Health Board should consider the suitability of contracts where payments are made in advance of treatment and where there is no obligation on the supplier to complete the work when the contract ends. |
| Benefits of implementing the recommendation | <ol style="list-style-type: none">1. Minimise the additional cost to the Health Board.2. Avoid paying twice for the same treatment. |
| Accepted in full by management | No |
| Management response | <ol style="list-style-type: none">1 Agreed2 This is a nationally agreed contract and therefore outside the gift of the Health Board to change the terms and conditions. The Health Board will raise its concerns with Welsh Government regarding this matter. |
| Implementation date | <ol style="list-style-type: none">1. June 20202. July 2020 |



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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.