



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

Archwilydd Cyffredinol Cymru
Auditor General for Wales

Audit of Financial Statements Report – **Hywel Dda University Health Board**

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We welcome correspondence and telephone calls in Welsh and English. Corresponding in Welsh will not lead to delay. Rydym yn croesawu gohebiaeth a galwadau ffôn yn Gymraeg a Saesneg. Ni fydd gohebu yn Gymraeg yn arwain at oedi.

The team who delivered the work comprised Ann-Marie Harkin, Jeremy Saunders, Leanne Malough and the Hywel Dda University Health Board audit team.

Summary report

The Auditor General intends to issue a qualified¹ audit report on your financial statements and this will be supported by a substantive report. There are some issues to report to you prior to the Board's approval of the financial statements.

Summary report

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

Introduction

- 1 The Auditor General is responsible for providing an opinion on whether the financial statements give a true and fair view of the financial position of Hywel Dda University Health Board at 31 March 2018-19 and its income and expenditure for the year then ended.
- 2 We do not try to obtain absolute assurance that the financial statements are correctly stated, but adopt the concept of materiality. In planning and conducting the audit, we seek to identify material misstatements in your financial statements, namely, those that might result in a reader of the accounts being misled.
- 3 The quantitative levels at which we judge such misstatements to be material for Hywel Dda University Health Board is £9.2 million. Whether an item is judged to be material can also be affected by certain qualitative issues such as legal and regulatory requirements and political sensitivity.
- 4 International Standard on Auditing (ISA) 260 requires us to report certain matters arising from the audit of the financial statements to those charged with governance of a body in sufficient time to enable appropriate action.
- 5 This report sets out for consideration the matters arising from the audit of the financial statements of Hywel Dda University Health Board for 2018-19, that require reporting under ISA 260.

Status of the audit

- 6 We received the draft financial statements for the year ended 31 March 2019 on 26 April 2019, the agreed deadline, and have now substantially completed the audit work.
- 7 We are reporting to you the more significant issues arising from the audit, which we believe you must consider prior to approval of the financial statements. The audit team has already discussed these issues with the Director of Finance and his team.

Proposed audit report

- 8 It is the Auditor General's intention to issue a qualified² audit report on the financial statements once you have provided us with a Letter of Representation based on that set out in [Appendix 1](#).
- 9 The proposed audit report is set out in [Appendix 2](#). The Auditor General will be issuing a substantive report alongside his audit report (also set out in [Appendix 2](#)). The report explains the two financial duties applicable from 2016-17, the

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

performance of the Health Board against them and implications for this year's regularity opinion.

Significant issues arising from the audit

Uncorrected misstatements

- 10 There are no misstatements identified in the financial statements, which remain uncorrected.

Corrected misstatements

- 11 There are 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. They are set out with explanations in [Appendix 3](#).

Other significant issues arising from the audit

- 12 In the course of the audit, we consider a number of matters both qualitative and quantitative relating to the accounts and report any significant issues arising to you. There were no issues arising in these areas this year:

We have no concerns about the qualitative aspects of your accounting practices and financial reporting

- 13 We found the information provided by the Health Board to be relevant, reliable, comparable, material and easy to understand. The Health Board has high quality working papers and quality assurance processes over the financial statements. We concluded that accounting policies and estimates are appropriate and financial statement disclosures unbiased, fair and clear.
- 14 As in previous financial years, there are a number of significant estimates made at the year-end when the financial statements are prepared. These, and our conclusions on them, are as follows:

Exhibit 1: significant estimates, assessment and conclusion

Significant estimates	Assessment and conclusion
Primary care accruals for year-end expenditure (eg enhanced services, prescribing and dental)	Processes and estimates are assessed as reasonable. This also forms part of the monthly financial reporting processes.

Significant estimates	Assessment and conclusion
Other health care providers accrual for year-end costs	Agreement with all Welsh health care providers is collated and arbitrated through the Welsh Government matrix of transactions and balances. These processes and estimates are robust.
Clinical negligence and personal injury claims	Estimates are reasonable – they are based on the Welsh Risk Pool’s assessment and these processes are robust.
Retrospective continuing health care claims	The estimate and methodology for assessing the level of provision are reasonable.

We did not encounter any significant difficulties during the audit

15 There were no significant difficulties during the audit. We received information in a timely and helpful manner and were not restricted in our work. Indeed, remote read-only access to the Health Board’s ledger reporting tool and working papers improved the efficiency of our audit work. The deadlines for submission of the financial statements are challenging and we would like to commend the Health Board’s Finance team for the timing and quality of the accounts preparation work. The constructive but independent working relationships with the Director of Finance and his new team have developed quickly.

There were no significant matters discussed and corresponded upon with management which we need to report to you beyond those set out in the substantive report

16 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 approved three-year integrated medium term plan for the period 2018-19 to 2020-21. The report also identifies that for 2018-19, the Health Board did not meet its revenue resource allocation over the three-year period.

There are no other matters significant to the oversight of the financial reporting process that we need to report to you

17 The Health Board is required to prepare and include in its Accountability Report an Annual Governance Statement which sets out the Health Board’s governance structures, systems of internal control and risk management and the effectiveness of these systems in operation during the year. We reviewed the Statement to consider its consistency with Manual for Accounts requirements and with other information known to us from our audit work. We identified a small number of minor narrative and presentational adjustments, which have been reflected in the final Statement, and we will continue to work with management to further develop the Statement in future years.

18 There are no other matters significant to the oversight of the financial reporting process that we need to report to you.

We did not identify any material weaknesses in your internal controls but we have identified some areas for improvement

- 19 We have not identified any matters which are material to the accuracy and completeness of the financial statements or any matters which are significant enough to bring to your attention. We will discuss and agree with management appropriate action for the relatively minor issues we have identified.

There are no other matters specifically required by auditing standards to be communicated to those charged with governance

- 20 There are no other matters (such as those relating to fraud, compliance with laws and regulations, or subsequent events) that we need to report to you.

Independence and objectivity

- 21 As part of the finalisation process, we are required to provide you with representations concerning our independence.
- 22 We have complied with ethical standards and in our professional judgment, we are independent and our objectivity is not compromised. There are no relationships between the Wales Audit Office and Hywel Dda University Health Board that we consider to bear on our objectivity and independence.

Appendix 1

Final Letter of Representation

Auditor General for Wales
24 Cathedral Road
Cardiff
CF11 9LJ

29 May 2019

Representations regarding the 2018-19 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 Local Health Board (the Health Board) for the year ended 31 March 2019 for the purpose of expressing an opinion on their truth and fairness 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 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.

Information provided

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 the 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 statements 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.

All contingent liabilities have been identified and properly assessed. Contingent liabilities are considered to be not material to the financial statements.

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.

Representations by those charged with governance

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

We acknowledge our responsibility for ensuring that the Health Board maintains adequate accounting records.

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 the Health Board on 29 May 2019.

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:

[Officer who signs on behalf of management]

29 May 2019

Signed by:

[Officer or Member who signs on behalf of those charged with governance]

Appendix 2

Proposed audit report of the Auditor General to the National Assembly for Wales

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

Report on the audit of the financial statements

Opinion

I certify that I have audited the financial statements of Hywel Dda University Health Board for the year ended 31st March 2019 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 Health Board as at 31st March 2019 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.

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 £154.481 million explained in the paragraph below, in all material respects, the expenditure and income have been applied to the purposes intended by the National Assembly for Wales 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 £154.481 million over the £2,356.093 million that it was authorised to spend in the three-year period 2016-17 to 2018-19. 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 Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and the Governance Statement has been prepared in accordance with Welsh Ministers' guidance;
- the information given in the Performance Report specify the other information provided with the financial statements for the financial year for which the financial statements are prepared is consistent with the financial statements and the Performance Report the other information provided with the financial statements 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 Performance Report.

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.

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 79 and 115 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 National Assembly for Wales and the financial transactions conform to the authorities which govern them.

Adrian Crompton
Auditor General for Wales
11 June 2019

24 Cathedral Road
Cardiff
CF11 9LJ

Report of the Auditor General to the National Assembly for Wales

Introduction

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

For 2018-19, 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 second three-year period under this duty is 2016-17 to 2018-19, and so it is measured this year for the third 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 £2,356.093 million by £154.481 million. The LHB did not therefore meet its first financial duty.

Where an LHB does not balance its books over a rolling three-year period, any expenditure over the resource allocation (ie 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 2018-19 if it submitted a 2018-19 to 2020-21 plan approved by its Board to the Welsh Ministers who then approved it by 30 June 2018.

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 (IMTP) in place for the period 2018-19 to 2020-21.

Following discussion between Hywel Dda University Health Board and Welsh Government, the Health Board acknowledged that it was not in a position to submit an IMTP for the period 2018-19 to 2020-21 given the status of the Transforming Clinical Services and Turnaround Programmes. In the absence of an IMTP, the Health Board developed an Annual Plan that was submitted to Welsh Government by the Board on 29th March 2018.

Adrian Crompton
Auditor General for Wales
11 June 2019

24 Cathedral Road
Cardiff
CF11 9LJ

Appendix 3

Summary of corrections made to the draft financial statements which should be drawn to the attention of Hywel Dda University Health Board

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.

Value of correction	Nature of correction	Reason for correction
£634,000	Addition of property leases values to Note 8: Operating Leases	Property leases omitted from note
NA	Re-ordering of paragraphs in Note 31: Related party transactions and amendments to some figures	Increase clarity and accuracy of the disclosure
various	Some minor errors in remuneration disclosures to correct to actual figures	Remuneration report is material by nature
NA	Other minor narrative amendments	To improve clarity of the accounts

Wales Audit Office
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

Swyddfa Archwilio Cymru
24 Heol y Gadeirlan
Caerdydd CF11 9LJ

Ffôn: 029 2032 0500

Ffacs: 029 2032 0600

Ffôn testun: 029 2032 0660

E-bost: post@archwilio.cymru

Gwefan: www.archwilio.cymru