

# Annual Audit Report 2020 – Aneurin Bevan University Health Board

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# Summary report

## About this report

- 1 This report summarises the findings from my 2020 audit work at Aneurin Bevan University Health Board (the Health Board) undertaken to fulfil my responsibilities under the Public Audit (Wales) Act 2004. That Act requires me to:
  - examine and certify the accounts submitted to me by the Health Board, and to lay them before the Senedd;
  - satisfy myself that expenditure and income have been applied to the purposes intended and are in accordance with authorities; and
  - satisfy myself that the Health Board has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
- 2 I report my overall findings under the following headings:
  - Audit of accounts
  - Arrangements for securing economy, efficiency and effectiveness in the use of resources
- 3 This year's audit work took place at a time when public bodies were responding to the unprecedented and ongoing challenges presented by the COVID-19 pandemic. Given its impact, I re-shaped my planned work programmes by considering how to best assure the people of Wales that public funds are well managed. I considered the impact of the current crisis on both resilience and the future shape of public services and aimed to ensure my work did not hamper public bodies in tackling the crisis, whilst ensuring it continued to support both scrutiny and learning. All on-site audit work was suspended whilst we continued to work and engage remotely where possible through the use of technology. This inevitably had an impact on the delivery of some of my planned audit work but has also driven positive changes in our ways of working.
- 4 The delivery of my audit of accounts work was not without its challenges, not only in how and where we undertook the work, but also in taking account of new considerations for financial statements arising directly from the pandemic. The success in delivering to the amended timetable reflects a great collective effort by both my staff and the Health Board's officers to embrace and enable new ways of working and remain flexible to and considerate of the many issues arising.
- 5 At the onset of the pandemic I suspended the publication of some performance audit reports nearing completion, reflecting the capacity of audited bodies to support remaining fieldwork and contribute to the clearance of draft audit outputs. I have also adjusted the focus and approach of some other planned reviews to ensure their relevance in the context of the crisis. New streams of work have been introduced, such as my review of the Test, Trace and Protect programme, and my local audit teams have contributed to my wider COVID-19 learning work.

- 6 This report is a summary of the issues presented in more detailed reports to the Health Board this year (see **Appendix 1**). I also include a summary of the status of planned work currently being re-scoped.
- 7 **Appendix 2** presents the latest estimate of the audit fee that I will need to charge to cover the costs of undertaking my work, compared to the original fee set out in the 2020 Audit Plan.
- 8 **Appendix 3** sets out the financial audit risks set out in my 2020 Audit Plan and how they were addressed through the audit.
- 9 The Chief Executive and the Director of Finance and Performance have agreed the factual accuracy of this report. We presented it to the Audit Committee on February 4, 2021. The Board will receive the report at a later Board meeting and every member will receive a copy. We strongly encourage the Health Board to arrange its wider publication. We will make the report available to the public on the [Audit Wales website](#) after the Board have considered it.
- 10 I would like to thank the Health Board's staff and members for their help and co-operation throughout my audit.

## Key messages

### Audit of accounts

- 11 I concluded that the Health Board's accounts were properly prepared and materially accurate and issued an unqualified audit opinion on them. My work did not identify any material weaknesses in the Health Board's internal controls (as relevant to my audit). However, I placed an Emphasis of Matter paragraph in my report to draw attention to disclosures in the accounts relating to a Ministerial Direction to fund NHS clinician's pension tax liabilities in respect of the 2019-20 financial year. My opinion was not modified in respect of this matter. I also brought to the attention of officers and the Audit Committee, one matter regarding the delays in obtaining information required for the audit of the remuneration report.
- 12 The Health Board achieved financial balance for the three-year period ending 31 March 2020, and had no other material financial transactions that were not in accordance with authorities nor used for the purposes intended, so I have issued an unqualified opinion on the regularity of the financial transactions within the Health Board's 2019-20 accounts.

## Arrangements for securing efficiency, effectiveness and economy in the use of resources

- 13 My programme of Performance Audit work has led me to draw the following conclusions:
- the Health Board maintained good governance quickly adapting its governance arrangements to respond to the challenges of the pandemic;
  - financial management remains robust but ongoing COVID-19 costs risk financial deficit;
  - quarterly plans set out the safe restart of planned services and resources required, although reporting of delivery is not yet established; and
  - the Health Board demonstrates a commitment to counter-fraud, has suitable arrangements to support the prevention and detection of fraud and is able to respond appropriately where fraud occurs.
- 14 These findings are considered further in the following sections.

# Detailed report

## Audit of accounts

- 15 This section of the report summarises the findings from my audit of the Health Board's financial statements for 2019-20. These statements are how the organisation shows its financial performance and sets out its net assets, net operating costs, recognised gains and losses, and cash flows. Preparing the statements is an essential element in demonstrating the appropriate stewardship of public money.
- 16 My 2020 Audit Plan set out the financial audit risks for the audit of the Health Board's 2019-20 financial statements. Exhibit 4 in Appendix 3 lists these risks and sets out how they were addressed as part of the audit.
- 17 My responsibilities in auditing the Health Board's financial statements are described in my [Statement of Responsibilities](#) publications, which are available on the [Audit Wales website](#).

## Accuracy and preparation of the 2019-20 financial statements

- 18 I concluded that the Health Board's accounts were properly prepared and materially accurate and issued an unqualified audit opinion on them. My work did not identify any material weaknesses in the Health Board's internal controls (as relevant to my audit). However, I placed an emphasis of matter paragraph in my report to draw attention to disclosures in the accounts relating to clinical staffs' pension tax liabilities incurred by NHS Wales bodies in respect of the 2019-20 financial year. My opinion was not modified in respect of this matter. I also brought several issues to the attention of officers and the Audit Committee, including a matter regarding the delays experienced in obtaining information required to audit the remuneration report.
- 19 I must report issues arising from my work to those charged with governance before I issue my audit opinion on the accounts. My Financial Audit Engagement Lead reported these issues to the Health Board's Audit Committee on June 24, 2020. **Exhibit 1** summarises the key issues set out in that report.

## Exhibit 1: issues identified in the Audit of Financial Statements Report

| Issue                     | Auditors' comments  |
|---------------------------|---|
| Uncorrected misstatements | There were no misstatements identified in the accounts, which remained uncorrected.   |
| Corrected misstatements   | <p>There were several misstatements in the accounts that were corrected by management. None of the corrected misstatements had an impact on the overall financial position. I drew them to your attention due to their relevance to your responsibilities over the financial reporting process.</p> <p>In addition, there were minor misstatements that were corrected by management and these minor financial corrections did not impact on the reported surplus. I did not consider that they needed to be drawn to your attention as part of your responsibilities over the financial reporting process.</p>   |
| Other significant issues  | <p>I requested that the Health Board set out in Note 21.1 - Contingent liabilities - of the financial statements, additional narrative to disclose the potential liability resulting from the Ministerial Direction to the Welsh Government to fund pensions tax liabilities above the pension savings annual allowance threshold in 2019-20. The Health Board disclosed the existence of a contingent liability at 31 March 2020, and my opinion was not modified in respect of this matter.</p> <p>In previous years, I have encountered delays in obtaining appropriate evidence to support my audit of the remuneration report. I met with the Health Board in December 2019 to discuss working paper requirements and timescales to allow me to complete the audit in April 2020. These timescales were not met, and my audit of the remuneration report was not completed until 19 June 2020.</p> |

20 As in previous years, and despite the challenges of working remotely in response to the national lockdown, the unaudited accounts were provided to audit within the revised agreed timescales, and the working papers provided were of a good quality which enabled the audit to be completed with the revised statutory deadlines. My



audit team received most of the audit evidence in electronic format and used various techniques to ensure its validity. Where my audit team were unable to obtain access to paper documents because of COVID-19 restrictions, alternative audit methodologies were devised to obtain sufficient audit evidence, specifically:

- the Finance Team provided audit evidence to the audit team via a secure file sharing portal;
- the Finance Team were available by video conferencing for discussions, and the sharing of on-screen information and evidence;
- I also secured remote read-only access to the Health Board's Oracle ledger, which enabled my audit team to query the ledger and hence reduce the burden on the Finance Team to provide this information; and
- for testing of existence and ownership of assets, my audit team used a combination of visual identification (where this was practical), access to Audit Wales land registry tool and photographic evidence.

21 We acknowledge the significant achievement of the Finance team in preparing the financial statements to a good standard, in the face of the challenges posed by the pandemic.

22 I also undertook a review of the Whole of Government Accounts return. I concluded that the counterparty consolidation information was consistent with the Health Board's financial position as at 31 March 2020 and the return was prepared in accordance with the Treasury's instructions.

23 My separate audit of the charitable funds financial statements is complete. The accounts were approved by the Charitable Funds Committee on 13 January 2021, following consideration of my report on the financial statements and will be signed by the Trustees on 27 January. I will issue the audit opinion on 28 January 2021.

## Regularity of financial transactions

24 The Health Board achieved financial balance for the three-year period ending 31 March 2020 and had no other material financial transactions that were not in accordance with authorities nor used for the purposes intended, so I have issued an unqualified opinion on the regularity of the financial transactions within the Health Board's 2019-20 accounts.

25 The Health Board's financial transactions must be in accordance with authorities that govern them. The Health Board must have the powers to receive the income and incur the expenditure. Our work reviews these powers and tests that there are no material elements of income or expenditure which the Health Board does not have the powers to receive or incur.

26 Where a Health Board does not achieve financial balance, its expenditure exceeds its powers to spend and so I must qualify my regularity opinion. The Health Board met its financial duty to break even over the three years 2017-18 to 2019-20 and to retain an in-year surplus (£32,000) for 2019-20.

27 I have the power to place a substantive report on the Health Board's accounts alongside my opinions where I want to highlight issues. As the Health Board met both of its financial duties: to achieve financial balance (as set out above) and to have an approved three-year plan in place, and there were no other issues warranting report, I did not issue a substantive report on the accounts.

## Arrangements for securing efficiency, effectiveness and economy in the use of resources

28 I have a statutory requirement to satisfy myself that the Health Board has proper arrangements in place to secure efficiency, effectiveness and economy in the use of resources. I have undertaken a range of performance audit work at the Health Board over the last 12 months to help me discharge that responsibility. This work has involved:

- undertaking a structured assessment of the Health Board's corporate arrangements for ensuring that resources are used efficiently, effectively and economically; and
- reviewing the effectiveness of the Health Board's counter-fraud arrangements.

29 My conclusions based on this work are set out below.

### Structured assessment

30 My structured assessment work was designed in the context of the ongoing response to the pandemic. I ensured a suitably pragmatic and relevant approach to help me discharge my statutory responsibilities, whilst minimising the impact on NHS bodies as they responded to the next phase of the COVID-19 pandemic. The key focus of the work was on the corporate arrangements for ensuring that resources are used efficiently, effectively and economically. Auditors also paid attention to progress made to address previous recommendations where these related to important aspects of organisational governance and financial management especially in the current circumstances.

31 The structured assessment grouped our findings under three themes:

- governance arrangements;
- managing financial resources; and
- operational planning to support the continued response to the pandemic balanced against the provision of other essential services.

## Governance arrangements

- 32 My work considered the Health Board's ability to maintain sound governance arrangements while having to respond rapidly to the unprecedented challenges presented by the pandemic. My work found that **the Health Board maintained good governance quickly adapting its governance arrangements to respond to the challenges of the pandemic.**
- 33 A stable and resilient Board has led the organisation during the pandemic, with steps taken to support open conduct of business and rapid decision making. **The Board** remains committed to continuous improvement and to learning lessons to shape and strengthen governance arrangements.
- 34 The Health Board has strengthened aspects of board assurance and risk management and maintained important assurance mechanisms during COVID-19, but further opportunities exist. Strategic risks are clearly articulated, and the corporate risk register refined, but systematic Board oversight of risks to delivering quarterly operational plans is not yet in place. The Health Board is maintaining systems of assurance for quality and safety for both patients and the workforce and progress against audit recommendations continues to receive scrutiny and challenge.

## Managing financial resources

- 35 I considered the Health Board's financial performance, changes to financial controls during the pandemic and arrangements for monitoring and reporting financial performance. I found that financial management remains robust but ongoing COVID-19 costs could risk financial deficit.
- 36 The Health Board has a track record of meeting its financial duties and in 2019-20 it achieved break even and met its financial duties to break even over a three-year rolling period. To achieve financial balance in 2020-21, the Health Board set a savings target of £33 million (including £7 million of operational efficiencies) to address cost pressures, and to support the shift of resources in line with its priorities. The Health Board estimates a shortfall in savings of around £28 million because of the ongoing response to COVID-19. At the end of November, it had achieved £5.5 million of savings and is forecasting delivery of a further £5 million by March 2021.
- 37 The Health Board is forecasting financial break even in 2020-21 given the additional revenue funding announced by Welsh Government to provide financial stability for the remainder of the 2020-21. At the end of November 2020, the Health Board's financial position showed a small surplus (£572,000).

## Operational Planning

- 38 My work considered the Health Board's progress in developing and delivering quarterly operational plans to support the ongoing response to COVID-19 and to provide other essential services and functions in line with Welsh Government planning guidance. At the time of our work, the focus was on essential services with the aim of restoring normal and routine activities when it is safe and practicable to do so. My work found that quarterly plans set out the safe restart of planned services and resources required, although reporting of delivery is not yet established.
- 39 Quarterly operational plans were developed in a timely way. The quarterly plans are informed by data modelling and reflect Welsh Government guidance as well as important elements of the Health Board's Clinical Futures Strategy<sup>1</sup>. Resource plans are focused on ensuring adequate staffing and planned care capacity with a focus on developing agile and new ways of working. The Health Board has yet to report on delivery of its quarterly plans with formal reporting expected in November.

## Effectiveness of counter-fraud arrangements

- 40 In June 2019, I published an [overview for the Public Accounts Committee](#) describing counter-fraud arrangements in the Welsh public sector. My team then undertook a more detailed examination across a range of Welsh public sector bodies to examine how effective counter-fraud arrangements are in practice and to make recommendations for improvement. In July 2020 I published [Raising Our Game – Tackling Fraud in Wales](#) setting out a summary of my findings and seven 'key themes' that all public bodies need to focus on in raising their game to tackle fraud more effectively.
- 41 Whilst this work was not included in the Health Board's audit plan, I also published an additional report setting out the Health Board's specific arrangements for preventing and detecting fraud. I found that the Health Board demonstrates a commitment to counter-fraud, has suitable arrangements to support the prevention and detection of fraud and is able to respond appropriately where fraud occurs.

<sup>1</sup> The Clinical Futures Strategy is the Health Board's long-term strategy for modernising clinical services across primary, community and secondary care.

# Appendix 1

## Reports issued since my last annual audit report

### Exhibit 2: reports issued since my last annual audit report

The following table lists the reports issued to the Health Board in 2020.

| Report  | Date           |
|---|----------------|
| <b>Financial audit reports</b>  |                |
| Audit of Financial Statements Report  | June 2020      |
| Opinion on the Financial Statements   | July 2020      |
| Charitable Funds - Audit of Financial Statements Report and Opinion on the Financial Statements | December 2020  |
| <b>Performance audit reports</b>  |                |
| Effectiveness of counter-fraud arrangements   | August 2020    |
| Structured Assessment 2020  | September 2020 |
| <b>Other</b>  |                |
| 2020 Audit Plan   | March 2020     |

### Exhibit 3: performance audit work still underway

There are several performance audits that are still underway at the Health Board. These are shown in the following table, with the estimated dates for completion of the work.

| Report  | Estimated completion date   |
|---|---|
| Orthopaedics  | January 2021  |
| Review of Welsh Health Specialised Services Committee | February 2021   |
| Test, Trace and Protect                               | February 2021   |
| Unscheduled care                                      | Phase 1 – February 2021<br>Further work to be included as part of 2021 audit plan |
| Quality Governance arrangements                       | July 2021   |
| Review of Arrangements for Securing Efficiencies      | March 2021  |
| Radiology services: follow-up of 2017 recommendations | July 2021   |

# Appendix 2

## Audit fee

The 2020 Audit Plan set out the proposed audit fee of £382,146 (excluding VAT). My latest estimate of the actual fee, on the basis that some work remains in progress, is in keeping with the fee set out in the outline.

In addition to the fee set out above, the audit work undertaken on the shared services provided to the Health Board by the NHS Wales Shared Services Partnership cost £8,770.

# Appendix 3

## Financial audit risks

### Exhibit 4: financial audit risks

My 2020 Audit Plan set out the financial audit risks for the audit of the Health Board's 2019-20 financial statements. The table below lists these risks and sets out how they were addressed as part of the audit.

| Audit risk   | Proposed audit response   | Work done and outcome  |
|--|---|--|
| <p>The COVID-19 national emergency may see a significant delay in the preparation and audit of accounts. Whilst the Health Board currently continues to work towards the original timetable for producing and certifying financial statements (28 April and 29 May respectively), the amended timetable within NHS Wales (22 May and 30 June respectively) still remains demanding. The COVID-19 national emergency increases the risk that the quality of the accounts and supporting working papers may be compromised, leading to an increased incidence of errors; and quality monitoring arrangements may be compromised due to timing issues and/or resource availability. Access to appropriate level of audit evidence</p> | <p>My audit team will:</p> <ul style="list-style-type: none"> <li>• continue to liaise weekly with the Health Board to monitor close down and account preparation progress;</li> <li>• provide support and advice to the Health Board wherever possible without compromising our independence;</li> <li>• liaise closely with the Health Board during the audit of the financial statements, highlighting instances where obtaining appropriate levels of audit evidence proves challenging; and</li> <li>• remain flexible regarding the timetable for the audit and certification of the financial statements.</li> </ul> | <p>Through close liaison with the Health Board throughout the preparation of the unaudited accounts and during the audit process, my audit team completed the audit of the Health Board's financial statements within the agreed timescales set by Welsh Government.</p> |



| Audit risk   | Proposed audit response   | Work done and outcome   |
|--|---|---|
| <p>may also be compromised, which could lead to a modified audit opinion</p>   |   |   |
| <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>My audit team will:</p> <ul style="list-style-type: none"> <li>• test the appropriateness of journal entries and other adjustments made in preparing the financial statements;</li> <li>• review accounting estimates for biases; and</li> <li>• evaluate the rationale for any significant transactions outside the normal course of business.</li> </ul> | <p>My audit testing did not identify any concerns regarding the risk of management over-ride.</p>   |
| <p>There is a significant risk that Aneurin Bevan Local Health Board (the Health Board) will fail to meet its first financial duty to break even over a three-year period. The position at month 11 shows a year-to-date deficit of £0.633 million and whilst the Health Board is currently predicting a year-end break-even position, there are a number of risks to this position with a 'worst case' financial risk range of up to £5.2 million which could</p> | <p>My audit team will focus its testing on areas of the financial statements which could contain reporting bias.</p>  | <p>My audit testing did not identify any areas of the Health Board's financial statements that contained reporting bias.</p> <p>The Health Board met its financial duty to break even over the three years 2017-18 to 2019-20 and to retain an in-year surplus (£32,000) for 2019-20.</p> |

| Audit risk   | Proposed audit response   | Work done and outcome   |
|--|---|---|
| <p>push the Health Board into deficit. Where the Health Board fails this financial duty, I will place a substantive report on the financial statements highlighting the failure. The current financial pressures on the Health Board increase the risk that management judgements and estimates could be biased in an effort to achieve the financial duty</p> |   |   |
| <p>On 18 December 2019 the First Minister issued a formal Ministerial Direction to the Permanent Secretary requiring her to implement a 'scheme pays' initiative in respect of the NHS pension tax arrangements for clinical staff.</p>  | <p>My Technical Team are considering the accounting treatment and audit implications of the direction (the first in Wales since 1999) in conjunction with the National Audit Office who are currently addressing the same issue in NHS England.</p> | <p>For the purpose of the 2019-20 financial statements, my Technical Team concluded that there was insufficient evidence regarding the take up of the scheme and that a reliable estimate could not be made at this time. Therefore, treatment as a contingent liability with adequate disclosure was considered as the appropriate accounting treatment.</p> <p>I requested that the Health Board set out in Note 21.1 - Contingent liabilities - additional narrative to disclose the potential liability resulting from the Ministerial Direction to the Welsh Government to fund pensions tax liabilities above the pension savings</p> |

| Audit risk  | Proposed audit response  | Work done and outcome   |
|---|--|---|
|   |  | <p>annual allowance threshold in 2019-20. I included an emphasis of matter paragraph within my audit report drawing the reader's attention to this additional disclosure.</p>   |
| <p>Introduction of IFRS 16 Leases in 2020-21 may pose implementation risks.</p> | <p>My team will undertake some early work to review preparedness for the introduction of IFRS 16 Leases.</p> | <p>The introduction of IFRS 16 Leases has been deferred until 2021-22. My team will roll forward any knowledge gained through audit work already undertaken to assess the Health Board's preparedness for the introduction of the new standard to our 2021-22 audit planning.</p> |



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