

Annual Audit Report 2020 – Cardiff and Vale University Health Board

Audit year: 2019-20

Date issued: February 2021

Document reference: 2170A2020-21

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Summary report

About this report

- 1 This report summarises the findings from my 2020 audit work at Cardiff and Vale 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** provides an update on the audit-fee estimate that I set in my 2020 Audit Plan, and when I expect to be able to confirm the actual fee for the year.
- 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 have agreed the factual accuracy of this report. My audit team will present it to the Audit Committee on 9 February 2021. The Board will also receive the report and every independent 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, except for the inventory balance as at 31 March 2020. I therefore issued a qualified limitation-of-scope opinion on the accounts.
- 12 This qualification was necessary because I had been unable to obtain sufficient appropriate audit evidence to support the Health Board's material inventory-balance of £16.784 million as at 31 March 2020. I would like to highlight that the qualification did not arise due to shortcomings in the Health Board's systems or actions, but because the UK's COVID-19 lockdown had prevented my audit team from undertaking their year-end inventory count, being a mandated audit procedure for a material inventory-balance. I would also like to highlight that I did not consider the inventory balance to be materially misstated, but rather that I could not establish whether it was materially true and fair.
- 13 My work did not identify any material weaknesses in the Health Board's internal controls (as relevant to my audit). However, I placed Emphasis of Matter paragraphs in my audit report to draw attention to two disclosures in the accounts, relating to:
- the impact of COVID-19 on the valuation of the Health Board's land and buildings as at 31 March 2020; and
 - the impact of a Ministerial Direction 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.

- 14 I also brought three important issues to the attention of officers and the Audit Committee. The issues, and my audit recommendations, related to some of the Health Board's accounting processes and underlying records.
- 15 The Health Board did not achieve financial balance for the three-year period ending 31 March 2020, and although it had no other material financial transactions that were not in accordance with authorities nor used for the purposes intended, I issued a qualified opinion on the regularity of the financial transactions within the Health Board's 2019-20 accounts. Alongside my audit opinion, I placed a substantive report on the Health Board's financial statements to highlight the failure to achieve financial balance.

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

- 16 My programme of Performance Audit work has led me to draw the following conclusions:
- there has been good operational management and agile decision-making during the pandemic despite some limitations in the transparency of scrutiny, assurance, and oversight of overall governance.
 - effective financial controls, monitoring and reporting have been maintained throughout the pandemic, but the impact of COVID-19 is creating a significant risk to the Health Board's ability to break even.
 - operational plans have been informed by robust data modelling and developed in a timely way, and the Health Board is seeking to more fully engage stakeholders in future planning. However, risks remain in the event of a second COVID-19 peak, and arrangements to monitor delivery of the plan need strengthening.
 - 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.
- 17 These findings are considered further in the following sections.

Detailed report

Audit of accounts

- 18 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.
- 19 My 2020 Audit Plan set out the financial audit risks for the audit of the Health Board's 2019-20 financial statements. **Exhibit 6 in Appendix 3** lists these risks and sets out how they were addressed as part of the audit.
- 20 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

- 21 I concluded that the Health Board's accounts were properly prepared and materially accurate, except for the inventory balance as at 31 March 2020. I therefore issued a qualified limitation-of-scope opinion on the accounts. In doing so I emphasised that the qualification was not due to shortcomings in the Health Board's systems or actions, but because of the impact of COVID-19 on one of my mandated audit procedures. I therefore reported that I did not consider the inventory balance to be materially misstated, but rather that I did not know whether it was materially true and fair.
- 22 My work did not identify any material weaknesses in the Health Board's internal controls (as relevant to my audit). However, I placed Emphasis of Matter paragraphs in my report to draw attention to two disclosures in the accounts relating to:
- the first disclosure related to the impact of the COVID-19 pandemic on the valuation of land and buildings as at 31 March 2020. As a result of COVID-19, and in accordance with specific guidance issued by their professional institute, the Health Board's valuer declared a 'material valuation uncertainty' in four of their professional valuation reports, with a total valuation of £65 million. All four valuation reports were dated 31 March 2020. The Health Board used these valuation reports to inform the measurement of certain of its property asset values in the financial statements at that date.
 - the second disclosure related to the impact of a Ministerial Direction in 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. This arrangement means that clinicians who are members of the NHS Pension Scheme and who, as a result of work undertaken in the 2019-20 tax year, face a tax charge on the growth of their NHS pension benefits, may opt to have this charge paid by the NHS Pension Scheme, with their pension reduced on retirement. The Health Board will then pay the clinician a corresponding amount on retirement, ensuring that they are fully compensated for the effect of the deduction. This scheme will be fully funded by the Welsh Government with no net cost to the Health Board.

- 23 I brought three important issues to the attention of officers and the Audit Committee, summarised below:
- weaknesses in some of the Health Board’s accounting processes, with some underlying accounting records being unnecessarily complex and held outside of the financial ledger;
 - weaknesses in some of the Health Board’s audit evidence, which were also unnecessarily complex and very difficult to audit; and
 - the premature request and receipt of the signed 2019-20 related-party declarations from the Health Board’s independent members and senior officers.
- 24 The Health Board submitted its draft Accountability Report and Financial Statements by the Welsh Government’s 22 May deadline, and my audit and certification also accorded with the Welsh Government timetable.
- 25 I must report issues arising from my work to those charged with governance before I issue my audit opinion on the accounts. My audit team reported these issues to the Health Board’s Audit Committee and its Board on 29 June 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 was one uncorrected misstatement in respect of the Health Board’s accounting treatment for its pooled-budget balances as at 31 March 2019 and 2020. The balances affected by the misstatement were significant but not material, and their non-correction therefore did not affect my audit opinion on the accounts.

Issue	Auditors' comments
Corrected misstatements	I reported the five most significant corrected misstatements. They mainly related to accounting classifications and disclosures. Two of the corrections related to the Health Board's receipt of more up-to-date information, which it did not have at the time of preparing the draft accounts for audit.
Other significant issues	No other significant matters arose, further to the matters already highlighted in this report in respect of my qualified opinions and my emphasis-of matter reporting.

- 26 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 at 31 March 2020 and the return was prepared in accordance with the Treasury's instructions.
- 27 My separate audit of the Health Board's Charitable Funds Account is currently ongoing. I am scheduled to report my findings to trustee members on 28 January 2021 and, if the account is approved and signed, to certify it on 29 January.

Regularity of financial transactions

- 28 The Health Board failed to achieve financial balance for the three-year period ending 31 March 2020 and I therefore issued an unqualified opinion on the regularity of the financial transactions within the Health Board's 2019-20 accounts.
- 29 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.
- 30 Where a Health Board does not achieve financial balance, its expenditure exceeds its powers to spend and so I must qualify my regularity opinion. **Exhibits 2 and 3** show that while the Health Board had met its capital resource allocation, it had failed to meet its revenue resource allocation.

Exhibit 2: financial performance against the revenue resource allocation (£'000s)

	2017-18 £'000	2018-19 £'000	2019-20 £'000	Total £'000
Operating expenses	899,060	945,419	1,025,612	2,870,091
Revenue resource allocation	872,207	935,547	1,025,670	2,833,424
Under (over) spend against allocation	(26,853)	(9,872)	58	(36,667)

Exhibit 3: financial performance against the capital resource allocation (£'000s)

	2017-18 £'000	2018-19 £'000	2019-20 £'000	Total £'000
Capital charges	47,033	48,413	58,070	153,516
Capital resource allocation	47,121	48,487	58,159	153,767
Under (over) spend against allocation	88	74	89	251

Source: 2019-20 financial statements

31 I have the power to place a substantive report on the Health Board's accounts alongside my opinions where I want to highlight issues. Due to the Health Board's failure to meet its financial duties, alongside my audit opinion I placed a substantive report setting out the factual details, in that the Health Board had failed its duty to achieve financial balance (as set out above).

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

32 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.

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

Structured assessment

34 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.

35 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

36 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 there has been good operational management and agile decision-making during the pandemic despite some limitations in the transparency of scrutiny, assurance, and oversight of overall governance.

37 The Health Board quickly adapted its governance arrangements to support agile and rapid decision-making and ensure effective operational management during the pandemic. Reasonable steps were taken to conduct Board business in an open way. However, there was scope for more detailed reporting in public during the pandemic, and to have spent more time on scrutiny and assurance of relevant matters particularly in the areas of quality, safety and workforce.

38 Opportunities to build knowledge, understanding and resilience across its cadre of Independent Members were not pursued by the Health Board in full by, for example, actively encouraging the members of committees which were stood down to participate in other committees during the period. Furthermore, there was scope for the Health Board to make greater use of Board Champions to support its response to the pandemic.

39 Communication with staff, the public, and partners during the pandemic was effective.

- 40 A programme of learning has been instigated, although the Board is yet to reflect on its experiences of governing during the pandemic.

Managing financial resources

- 41 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 effective financial controls, monitoring and reporting have been maintained throughout the pandemic, but the impact of COVID-19 is creating a significant risk to the Health Board's ability to break even.
- 42 The Health Board achieved financial balance for 2019-20. But, with a cumulative deficit of some £37 million for the period 2017-2020, the Health Board failed to meet its statutory duty to have a three-year breakeven position or better. The Health Board has clear intentions to break even over the next three-years. At the time of undertaking our structured assessment work, the year-end position for 2020-21 was likely to be in significant deficit as a result of COVID-19 unless the Health Board secured additional funding. However, the Health Board has since received additional funding from the Welsh Government and is now forecasting an in-year breakeven position.
- 43 Effective financial controls, monitoring and reporting were maintained during the pandemic. Arrangements were also put in place to clearly track COVID-19 expenditure, yet there is scope for monitoring and reporting to be increasingly more transparent.

Operational Planning

- 44 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 operational plans have been informed by robust data modelling and developed in a timely way, and the Health Board is seeking to more fully engage stakeholders in future planning. However, risks remain in the event of a second COVID-19 peak, and arrangements to monitor delivery of the plan need strengthening.
- 45 The Health Board's quarterly plans have been informed by robust data modelling and developed in a timely way, albeit with limited stakeholder engagement. The Board Governance Group considered the quarter one and two plans prior to submission, and they were retrospectively approved by the Board.
- 46 The Health Board responded quickly to ensure sufficient resources were in place to deliver quarter one planning objectives. However, continued exclusive use of an independent hospital is a key dependency in the delivery of planned activity during quarter two, and risks remain in the event of a second COVID-19 peak.

- 47 Streamlined performance reporting to the Board has operated during the pandemic. However, as performance management measures begin to be reinstated, there is a need to develop the Board reporting and scrutiny arrangements around the delivery of the operational plans.

Effectiveness of counter-fraud arrangements

- 48 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.
- 49 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.

Appendix 1

Reports issued since my last annual audit report

Exhibit 4: reports issued since my last annual audit report

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

Report	Month
Financial audit reports	
Audit of Financial Statements Report	June 2020
Opinion on the Financial Statements	July 2020
Audit of Accounts Report Addendum	August 2020
Performance audit reports	
Structured Assessment 2020	October 2020
Effectiveness of counter-fraud arrangements	August 2020
Other	
2020 Audit Plan	February 2020

Exhibit 5: performance audit work still underway

There are a number of 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 Further work to be included as part of 2021 plan
Follow-up of previous IM&T recommendations	February 2021
Follow-up of operating theatres	February 2021
Quality Governance arrangements	April 2021
Follow-up of radiology services	April 2021

Appendix 2

Audit fee

The 2020 Audit Plan set out the proposed audit fee of £390,652 (excluding VAT). I should be able to confirm my actual chargeable fee in February 2021, once I have audited and certified the Health Board's 2019-20 Charitable Funds Account. Trustee Members are due to consider the audited accounts and my audit report on 28 January 2021, and my certification is scheduled for 29 January. I will report my actual fee to the Audit Committee in my 2021 Audit Plan.

Appendix 3

Financial audit risks

Exhibit 6: 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 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">• test the appropriateness of journal entries and other adjustments made in preparing the financial statements;• review accounting estimates for biases;• evaluate the rationale for any significant transactions outside the normal course of business; and• add additional procedures to address any specific risks of management override which are not addressed by the mandatory work above.	<p>I reviewed a number of the accounting estimates and a sample of transactions that included journal entries. My audit findings were satisfactory.</p>

Audit risk	Proposed audit response	Work done and outcome
<p>Under the NHS Finance (Wales) Act 2014, health boards ceased to have annual resource limits with effect from 1 April 2014. They instead moved to a rolling three-year resource limit, for revenue and capital net expenditure, with the first three-year period running to 31 March 2017.</p> <p>The Health Board has exceeded its rolling three-year revenue limit in 2016-17, 2017-18 and 2018-19 and I therefore qualified my regularity opinion on the Health Board's financial statements for those years.</p> <p>For 2019-20 the Health Board expects to break even, but this would nonetheless result in a cumulative deficit of £36.7 million for the three years to 31 March 2020.</p>	<p>My audit team will continue to monitor the Health Board's financial position for 2019-20 and the cumulative three-year position to 31 March 2020.</p> <p>This review will also consider the impact of any relevant uncorrected misstatements over those 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 2019-20 financial statements. As in previous years, I would also expect to place a substantive report on the statements to explain the basis of the qualification and the circumstances under which it had arisen.</p>	<p>As set out in this report, my audit confirmed that the Health Board met its three-year capital allocation but failed its revenue allocation.</p> <p>I therefore qualified my regularity opinion, which I explained in my accompanying substantive report.</p>

Audit risk	Proposed audit response	Work done and outcome
<p>I audit some of the disclosures in the Remuneration Report, such as the remuneration of senior officers and independent members, to a far lower level of materiality due to their sensitivity.</p> <p>These disclosures are therefore inherently more prone to material misstatement. In recent past audits I have identified material misstatements in the remuneration report submitted for my audit, which the Health Board then corrected. These past misstatements mean that I judge the 2019-20 disclosures to be at risk of further misstatement.</p>	<p>My audit team will review all entries in the Remuneration Report to verify that the Health Board has reflected all known changes to senior positions, and that the disclosures are complete and accurate.</p>	<p>I substantively tested the Remuneration Report as intended. My audit results were satisfactory.</p>

Audit risk	Proposed audit response	Work done and outcome
<p>I also audit the Health Board's related party disclosures to a far lower materiality. In recent years I have reported weaknesses in the Health Board's related party arrangements, which led to material misstatement in the draft accounts. As a result of my audit findings, the Health Board undertook remedial work and corrected its related-party disclosures, prior to my certification.</p> <p>These past misstatements mean that I judge the disclosures to be at risk of further misstatement for 2019-20.</p>	<p>My audit team will review and test the completeness and accuracy of the related-party disclosures.</p>	<p>I substantively tested related parties and the audit results were satisfactory.</p> <p>I did however report weaknesses in the Health Board's processes and I raised a recommendation for improvement, which management accepted.</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>We are considering the accounting treatment and audit implications of the direction (the first in Wales since 1999) in conjunction with the NAO who are currently addressing the same issue in NHS England.</p>	<p>I tested the accounting for and regularity of this Direction. My audit results were satisfactory, although as set out in this report I included an 'emphasis of matter' narrative in my audit certificate.</p>

Audit risk	Proposed audit response	Work done and outcome
<p>For 2019-20 there is an increase of 6.3% (to 20.3%) in an employer's pension contributions, which represent a significant additional cost to the Health Board. We understand that the Welsh Government will bear the 2019-20 cost of this increase.</p>	<p>My audit team will test these additional costs to confirm whether the Health Board has disclosed and accounted for them correctly.</p>	<p>I substantively tested this matter, with a satisfactory audit conclusion.</p>
<p>The Introduction in 2020-21 of 'International Financial Reporting 'Standard 16 Leases' may pose implementation risks if the Health Board has not made good progress to date with its preparatory work.</p>	<p>My team will undertake some early work to review preparedness for the introduction of IFRS 16 Leases.</p>	<p>The introduction of this accounting standard was subsequently postponed for public bodies to 2021-22, and I therefore postponed my review.</p>



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