

Audit of Accounts Report – Cardiff and Vale University Local Health Board Charity

Audit year: 2020-21

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We intend to issue an unqualified audit report on your annual report and financial statements. There are some issues to report to you, prior to your consideration of their approval and signing.

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Audit of Accounts Report

Introduction

- 1 This report summarises the main findings from our audit of your 2020-21 annual report and financial statements. We have already discussed these issues with the Deputy Director of Finance.
- 2 Auditors can never give complete assurance that financial statements 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 financial statements into being misled. We set materiality at £48,000.
- 3 Whether an item is judged to be material can also be affected by certain qualitative issues such as legal and regulatory requirements and reporting sensitivity. We consider the disclosure of related party transactions and balances to be material by nature and we therefore set a lower materiality, at £5,000.
- 4 In our professional view, we have complied with the ethical standards that apply to our work. We remain independent of yourselves, and our objectivity has not been compromised in any way. There are no relationships between us and officers and yourselves, which we believe could undermine our objectivity and independence.

Impact of COVID-19 on this year's audit

- 5 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 financial statements and it is of considerable testament to the commitment of your finance team that you have succeeded in doing so, for a second year, in the face of the challenges posed by this pandemic. We are grateful to the professionalism of the team in supporting us to complete our audit.
- 6 The pandemic has continued to affect our audit and we summarise in **Exhibit 1** the main impacts. The information in **Exhibit 1** is provided for information purposes only to help you understand the impact of COVID-19 on this year's audit process.

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

Timetable	<ul style="list-style-type: none">• Whereas some deadlines for completing public sector financial statements were changed this year, there is no change to the deadline for preparing and certifying the Charity’s financial statements.• We received the draft financial statements on 3 November 2021.• Subject to your approval on 20 January 2022, the annual report and financial statements are scheduled to be certified on 24 January 2022, ahead of the Charity Commission’s deadline of 31 January 2022.
Electronic signatures	During the COVID-19 lockdown we are accepting electronic signatures and the electronic transfer of files.
Audit evidence	With remote working in place for your staff and us, we have obtained audit evidence in electronic format, for example, scanned invoices to verify expenditure transactions. We have also held meetings by remote video-link in place of normal face-to-face meetings.

Proposed audit opinion

- 7 We intend to issue an unqualified audit opinion on this year’s financial statements once you have provided us with a Letter of Representation based on that set out in **Appendix 1**. The Letter of Representation contains certain confirmations we are required to obtain from you under auditing standards.
- 8 We issue a ‘qualified’ audit opinion where we have material concerns about some aspects of your financial statements. Otherwise, we issue an unqualified opinion. Our proposed audit report with the unqualified audit opinion is set out in **Appendix 2**.

Significant issues arising from the audit

Uncorrected misstatements

- 9 We identified two non-trivial misstatements, which we discussed with management but remain uncorrected. We do not consider them, and their potentially wider consequences, to be material to our audit opinion.
- 10 The uncorrected misstatements are:

- an overstatement of income by £10,629, because the amount relates to 2021-22; and
 - an overstatement of income by £6,911, because the amount relates to 2019-20.
- 11 We also identified three smaller misstatements of a similar nature, which we decided to flag with you but not report in detail in this report.
- 12 Your decision not to amend the two misstatements set out above is covered within your proposed letter of representation at **Appendix 1**.

Corrected misstatements

- 13 There were misstatements in the draft financial statements which management has corrected. We draw your attention to them in **Appendix 3**.

Other significant issues arising from the audit

- 14 In recent years we have reported that the draft financial statements submitted for audit have contained numerous errors, some of which are basic and easily identifiable errors, that better preparation and management review should identify and correct. Within this reporting we have highlighted weaknesses in the Charity's controls for ensuring that in-year transactions and year-end balances are accounted for in the correct financial year.
- 15 We have had similar issues this year, with a material prior-year adjustment of some £455,000 in respect of project costs that should have been accounted for in 2019-20 (as in-year expenditure and use of reserves; and amounts payable as at 31 March 2020).
- 16 The last time that we formally reported on these matters was January 2020. We are repeating similar recommendations in this year's report.

Recommendations

- 17 We have set out two key findings and recommendations, with management's responses, at **Appendix 4**.

Appendix 1

Final Letter of Representation

Auditor General for Wales
Audit Wales
24 Cathedral Road
Cardiff
CF11 9LJ

20 January 2022

Representations regarding the 2020-21 financial statements

This letter is provided in connection with your audit of the financial statements of Cardiff and Vale University Local Health Board Charity for the year ended 31 March 2021 for the purpose of expressing an opinion on their truth and fairness and their proper preparation. 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

We have fulfilled our responsibilities for:

- The preparation of the financial statements in accordance with legislative requirements and the Charities Act 2011; in particular the financial statements give a true and fair view in accordance therewith.
- The design, implementation, maintenance and review of internal control to prevent and detect fraud and 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 Cardiff and Vale University Local Health Board Charity 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.

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. There are two misstatements that remain uncorrected. They relate to the overstatement of income, totalling £17,540, which was incorrectly accounted for in 2020-21. Management have confirmed that they are content not to correct the overstatements as they are immaterial.

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 the preparation of true and fair financial statements in accordance with the applicable financial reporting framework. The financial statements were approved by Trustee on 20 January 2022.

We confirm that we have taken all the steps that we ought to have taken 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:

Signed by:

Chief Executive

Trustee Chair

20 January 2022

20 January 2022

Appendix 2

The independent auditor's report of the Auditor General for Wales to the Trustee of Cardiff and Vale University Local Health Board Charity

Report on the audit of the financial statements

Opinion

I have audited the financial statements of Cardiff and Vale University Local Health Board Charity for the year ended 31 March 2021 under the Charities Act 2011. These comprise the Statement of Financial Activities, the Balance Sheet, the Statement of Cash Flows 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 United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In my opinion the financial statements:

- give a true and fair view of the state of affairs of the charity as at 31 March 2021 and of its incoming resources and application of resources for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the Charities Act 2011.

Basis for opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing in the UK (ISAs (UK)) and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. 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 charity 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

In auditing the financial statements, I have concluded that the use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work I have performed, I have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt

on the body's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from when the financial statements are authorised for issue.

My responsibilities and the responsibilities of the trustee with respect to going concern are described in the relevant sections of this report.

Report on other requirements

Other information

The other information comprises the information included in the annual report other than the financial statements and my auditor's report thereon. The trustee is responsible for the other information contained within the annual report. 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. My responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact.

I have nothing to report in this regard.

Matters on which I report by exception

I have nothing to report in respect of the following matters in relation to which the Charities (Accounts and Reports) Regulations 2008 require me to report to you if, in my opinion:

- the information given in the financial statements is inconsistent in any material respect with the trustee's report;
- sufficient accounting records have not been kept;
- the financial statements are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit.

Responsibilities

Responsibilities of the trustee for the financial statements

As explained more fully in the statement of trustee responsibilities set out on page xx, the trustee is responsible for preparing the financial statements in accordance with the Charities Act 2011, for being satisfied that they give a true and fair view, and for such internal control as the trustee determines 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 trustee is responsible for assessing the charity'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

I have been appointed as auditor under section 150 of the Charities Act 2011 and report in accordance with regulations made under section 154 of that Act.

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.

My procedures included the following:

- Enquiring of management, the Cardiff and Vale University Local Health Board Charity's head of internal audit and those charged with governance, including obtaining and reviewing supporting documentation relating to Cardiff and Vale University Local Health Board Charity's policies and procedures concerned with:
 - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
 - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
 - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations.
- Considering as an audit team how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, I identified potential for fraud in the following areas: revenue recognition, posting of unusual journals; and

- Obtaining an understanding of Cardiff and Vale University Local Health Board Charity's framework of authority as well as other legal and regulatory frameworks that the Cardiff and Vale University Local Health Board Charity operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of Cardiff and Vale University Local Health Board Charity.

In addition to the above, my procedures to respond to identified risks included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management and those charged with governance about actual and potential litigation and claims;
- reading minutes of meetings of those charged with governance; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

I also communicated relevant identified laws and regulations and potential fraud risks to all audit team and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

The extent to which my procedures are capable of detecting irregularities, including fraud, is affected by the inherent difficulty in detecting irregularities, the effectiveness of the Cardiff and Vale University Local Health Board Charity's controls, and the nature, timing and extent of the audit procedures performed.

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.

Adrian Crompton
Auditor General for Wales
24 January 2022

24 Cathedral Road
Cardiff
CF11 9LJ

Appendix 3

Summary of corrections made

We identified the following misstatements, which have been corrected by management and we consider should be drawn to your attention due to their relevance to your responsibilities over the financial reporting process.

Exhibit 2: summary of corrections made

Value of correction	Nature of correction	Reason for correction
£454,684	<u>Note 2 and Note 8 'Patient education and welfare'</u> Prior year restatement to increase the 2019-20 expenditure.	This amendment was required to disclose the impact of the prior-year adjustment within the Statement of Financial Position. The Note 2 narrative also required amendment. The Charity's draft financial statements had correctly restated the accruals and reserves as at 31 March 2020.
£11,572	<u>Note 15</u> Decrease the short-term prepayments and create long term prepayments of £11,572.	In 2020-21 the Charity had prepaid for watercoolers for the period 1 April 2021 to 31 January 2026. Our extended testing found further long-term prepayments, which led to the total correction of £11,572.

Value of correction	Nature of correction	Reason for correction
Various	Amendments to the audited prior-year figures brought forward to the 2020-21 financial statements.	<p>We identified a high level of error in the prior-year audited figures that were brought forward to the 2020-21 financial statements.</p> <p>The nature and extent of these errors were disappointing because accurately recording prior-year figures should be a straightforward part of the accounting process.</p>
Various	Amendments to numerous figures within the draft financial statements.	<p>We identified a high level of error in the casting and cross casting of certain figures, principally around their mathematical accuracy and internal consistency with related figures.</p> <p>The nature and extent of these errors were also disappointing because basic pre-audit checks should identify such errors.</p>

Appendix 4

Recommendations

Exhibits 3 and 4 set out our recommendations and management's responses. We will review the actions taken by management as part of next year's audit.

Exhibit 3: matter arising 1

Weaknesses in the accounts submitted for audit	
Findings	<p>In recent years we reported that the draft financial statements submitted for audit had contained numerous errors and that the Charity's quality-review arrangements needed to be strengthened.</p> <p>As part of these audit findings, for 2018-19 and 2020-21 the financial statements required material prior-year adjustments because expenditure and the associated year-end liabilities had been overlooked and accounted for.</p>
Recommendation	<p>The Charity should strengthen the management review of its draft financial statements, prior to their submission for audit.</p> <p>In terms of identifying each financial year's expenditure and year-end liabilities, the Charity should strengthen its process by contacting key officers annually, soon after the financial year-end. This engagement would gain key officers' written confirmation of significant expenditure in respect of goods and services provided, for the financial year in question, which are unpaid and therefore a liability at the financial year-end.</p>
Accepted in full by management	Yes
Management response	Recommendation agreed. The management review will be strengthened for 2021/22.
Implementation date	April 2022

Exhibit 4: matter arising 2

Prepaying suppliers potentially in advance of need	
Findings	<p>We found that the Charity has paid for some of its services many years in advance, with one prepayment, for the supply and refilling of watercoolers, being paid for the period to 31 March 2026. Based on our sampled transactional testing, the Charity's long-term prepayments (beyond 31 March 2022) totalled £11,572 (see Appendix 3).</p> <p>We consider it to be poor practice to pay for goods and services in advance of need. While such payments might attract discounts, they can also carry risk, such as a supplier going bankrupt and being dissolved.</p> <p>Public money must not be incurred in advance of need, per the Welsh Government's Managing Welsh Public Money.</p> <p>While we acknowledge that the Charity's funds are not public money, we consider that it should pay significantly in advance for only exceptional and clearly documented and approved reasons.</p>
Recommendation	<p>The Charity should review the adequacy of its guidance for any payments that are being considered on a long-term prepaid basis; and strengthen and issue revised guidance if necessary.</p>
Accepted in full by management	<p>Yes</p>
Management response	<p>Recommendation agreed. The guidance as contained in Standing Financial Instructions will be applied.</p>
Implementation date	<p>April 2022</p>



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