

Audit of Accounts Report – Cardiff and Vale University Health Board

Audit year: 2022-23

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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.

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We intend to issue unqualified audit opinions, except for the regularity opinion which we intend to qualify. There are some issues to report to you before you consider whether to approve the Performance Report, Accountability Report and Financial Statements.

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Audit of Accounts Report

Introduction

- 1 This report summarises the main findings from our audit of the Cardiff and Vale University Health Board's (the Health Board's) 2022-23 Performance Report, Accountability Report and Financial Statements. We have already discussed the reported issues with the relevant senior officers.
- 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.
- 3 We set our main materiality level at £18.6 million for this year's audit.
- 4 There are some areas of the financial statements that we judge may be of more importance to the reader, for which we set a lower materiality level. They include:
 - remuneration report – typically £1,000, and disclosures being within the correct financial banding (this also includes any associated payments, such as exit payments);
 - related party transactions and balances – £10,000 for positions of influence and/or significant pecuniary interests) held by independent members and senior officers, and their close family and dependants; and
 - performance against the three-year revenue and capital resource limits, with any excess net expenditure against one or both limits being deemed irregular.
- 5 We have substantially completed this year's audit.
- 6 In our professional view, we have complied with the ethical standards that apply to our work. There are no relationships between that we believe could undermine our objectivity and independence. We therefore remain independent of Health Board and our objectivity has not been compromised in any way.

Proposed audit opinion

- 7 We issue a 'qualified' audit opinion where we have material concerns about some aspects of your financial statements; otherwise, we issue an unqualified opinion. We intend to issue unqualified audit opinions on the 2022-23 financial statements, except for the regularity opinion which we intend to qualify.
- 8 We intend to qualify the regularity opinion because the Health Board breached its revenue resource limit. For the three-year period 2020-21 to 2022-23 the Health Board expended £26.467 million over the three-year revenue limit that the Welsh Government had authorised.
- 9 Our proposed audit certificate is at **Appendix 2**; and our proposed narrative report is at **Appendix 3** which provides a more detailed explanation of the basis of the qualified regularity opinion.

- 10 We provide the intended opinions 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 that we are required to obtain from you under auditing standards along with confirmation of other specific information you have provided to us during our audit.

Significant issues arising from the audit

Uncorrected misstatements

- 11 There are no non-trivial uncorrected misstatements.

Corrected misstatements

- 12 We identified some misstatements in the draft financial statements and remuneration report, which management has corrected. We draw the non-trivial corrections to your attention at **Appendix 4**.

Other significant issues arising from the audit

- 13 During the audit we consider a number of matters relating to the financial statements and report any significant issues arising to you. There are no such matters to report.

Recommendations

- 14 Following the Auditor General's certification, we will issue a separate report with our detailed findings, audit recommendations and management's responses. The report will also provide an update on management's progress with our previous audit recommendations. The report will be considered at a future meeting of the Audit and Assurance Committee.

Appendix 1

Letter of Representation

[to be provided on the Health Board's letterhead]

Auditor General for Wales
Audit Wales
1 Capital Quarter
Tyndall Street
Cardiff
CF10 4BZ

Date: 27 July 2023

Cardiff and Vale University Health Board: representations regarding the 2022-23 financial statements

This letter is provided in connection with your audit of the 2022-23 financial statements (including that part of the Remuneration Report that is subject to audit), for the purpose of expressing an opinion on their truth and fairness, their proper preparation and the regularity of income and expenditure.

We confirm that to the best of our knowledge and belief, having made enquiries as we consider sufficient, we can make the following representations to you.

Management representations

Responsibilities

As Chief Executive and Accountable Officer I have fulfilled my responsibility for:

- preparing the financial statements in accordance with legislative requirements and the Treasury's Financial Reporting Manual. In preparing the financial statements, I am required to:
 - observe the accounts directions issued by Welsh Ministers, including the relevant accounting and disclosure requirements and apply appropriate accounting policies on a consistent basis;
 - make judgements and estimates on a reasonable basis;
 - state whether applicable accounting standards have been followed and disclosed and explain any material departures from them; and
 - prepare them on a going concern basis on the presumption that the services of the Health Board will continue in operation;
- ensuring the regularity of any expenditure and other transactions incurred;

- the design, implementation and maintenance of internal control to prevent and detect error.

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 because 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; and
- our knowledge of all possible and actual instances of irregular transactions.

Financial statement representations

All transactions, assets and liabilities have been recorded in the accounting records and are reflected in the financial statements.

The methods, the data and the significant assumptions used in making accounting estimates, and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in the context of the applicable financial reporting framework.

Related party relationships and transactions have been appropriately accounted for and disclosed.

All events occurring after 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.

Representations by the Board

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

We acknowledge our responsibility for the preparation of true and fair financial statements in accordance with the applicable financial reporting framework. The financial statements were approved by the Board on 27 July 2023.

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:

**Suzanne Rankin
Chief Executive and
Accountable Office**

27 July 2023

Signed by:

**Charles Janczewski
Chair**

27 July 2023

Appendix 2

The proposed Certificate of the Auditor General for Wales to the Senedd

The Certificate of the Auditor General for Wales to the Senedd

Opinion on financial statements

I certify that I have audited the financial statements of Cardiff and Vale University Health Board for the year ended 31 March 2023 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 Taxpayers' 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 UK adopted international accounting standards as interpreted and adapted by HM Treasury's Financial Reporting Manual.

In my opinion, in all material respects, the financial statements:

- give a true and fair view of the state of affairs of Cardiff and Vale University Health Board as at 31 March 2023 and of its net operating costs for the year then ended;
- have been properly prepared in accordance with UK adopted international accounting standards as interpreted and adapted by HM Treasury's Financial Reporting Manual; and
- have been properly prepared in accordance with the National Health Service (Wales) Act 2006 and directions made there under by Welsh Ministers.

Opinion on regularity

In my opinion, except for the matter described in the *Basis for Qualified Regularity Opinion in regularity* section of my report, in all material respects, the expenditure and income in the financial statements have been applied to the purposes intended by the Senedd and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Basis for Qualified Opinion on regularity

I have qualified my opinion on the regularity of Cardiff and Vale University Health Board's financial statements because the Health Board has breached its revenue resource limit by spending £26.467 million over the amount that it was authorised to spend in the three-year period 2020-21 to 2022-23. This spend constitutes irregular expenditure.

Further detail is set out in my Report on page xx.

Basis for opinions

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 certificate.

My staff and I are 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 opinions.

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 directors with respect to going concern are described in the relevant sections of this certificate.

The going concern basis of accounting for Cardiff and Vale University Health Board is adopted in consideration of the requirements set out in HM Treasury's Government Financial Reporting Manual, which require entities to adopt the going concern basis of accounting in the preparation of the financial statements where it anticipated that the services which they provide will continue into the future.

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 Chief Executive 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.

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 parts of the Accountability Report subject to audit have been properly prepared in accordance with the National Health Service (Wales) Act 2006 and directions made there under by Welsh Ministers' directions; and;
- the information given in the Performance and Accountability Reports for the financial year for which the financial statements are prepared is consistent with the financial statements and is in accordance with Welsh Ministers' guidance.

Matters on which I report by exception

In the light of the knowledge and understanding of the Health Board and its environment obtained in the course of the audit, I have not identified material misstatements in the Performance Report and Accountability Report.

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

- I have not received all the information and explanations I require for my audit;
- adequate accounting records have not been kept, or returns adequate for my audit have not been received from branches not visited by my team;
- the financial statements and the audited part of the Accountability Report 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;
- certain disclosures of remuneration specified by HM Treasury's Government Financial Reporting Manual are not made or parts of the Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

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 xx and xx, the Directors and the Chief Executive are responsible for:

- maintaining adequate accounting records
- the preparation of financial statements and annual report in accordance with the applicable financial reporting framework and for being satisfied that they give a true and fair view;
- ensuring that the annual report and financial statements as a whole are fair, balanced, and understandable;
- ensuring the regularity of financial transactions;

- internal controls 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; and
- assessing the Health 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 the Directors and Chief Executive anticipate that the services provided by the Health Board will not continue to be provided in the future.

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit, certify and report on the financial statements in accordance with the National Health Service (Wales) Act 2006.

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 a certificate 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. I design procedures in line with my responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud.

My procedures included the following:

- Enquiring of management, the Head of Internal Audit and those charged with governance, including obtaining and reviewing supporting documentation relating to Health Board'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 management override and unusual journals;
 - obtaining an understanding of Health Board's framework of authority as well as other legal and regulatory frameworks that the Health Board 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 the Health Board; and
 - obtaining an understanding of related party relationships.

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, the Audit and Assurance Committee and legal advisors about actual and potential litigation and claims;

- reading minutes of meetings of those charged with governance and the Board; 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 members 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 Health Board 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.

Other auditor's responsibilities

I am also required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by the Senedd and the financial transactions recorded in the financial statements conform to the authorities which govern them.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

Report

Please see my Report on pages xx to xx.

Adrian Crompton
Auditor General for Wales
28 July 2023

1 Capital Quarter
Tyndall Street
Cardiff
CF10 4BZ

Appendix 3

The proposed Report of the Auditor General for Wales to the Senedd

Report of the Auditor General to the Senedd

Introduction

Under the Public Audit Wales Act 2004, I am responsible for auditing, certifying, and reporting on Cardiff and Vale University Health Board's financial statements. I am reporting on these financial statements for the year ended 31 March 2023 to draw attention to two key matters for my audit. These are the failure against the first financial duty and consequential qualification of my 'regularity' opinion and the failure of the second financial duty. I have not qualified my 'true and fair' opinion in respect of any of these matters.

Financial duties

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

For 2022-23, Cardiff and Vale University Health Board failed to meet both the first and second financial duty.

Failure of the first financial duty

The **first financial duty** gives additional flexibility to Health Boards by allowing them to balance their revenue and capital income with their expenditure over a three-year rolling period. The three-year period being measured this year under this duty is 2020-21 to 2022-23.

As shown in Note 2.1 to the Financial Statements, Cardiff and Vale University Health Board did not manage its net revenue expenditure within its resource allocation over this three-year period, exceeding its cumulative revenue resource limit of £3,689,286 by £26.467 million.

Where a Health Board does not balance its books over a rolling three-year period, any expenditure over the resource allocation (i.e. spending limit) for those three years exceeds the Health Board'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 Health Boards 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. A Health Board will be deemed to have met this duty for 2022-23 if it submitted a 2022-23 to 2024-25 plan approved by its Board to the Welsh Ministers, who were required to review and consider approval of the plan.

As shown in Note 2.3 to the Financial Statements, Cardiff and Vale University Health Board did not meet its second financial duty to have an approved three-year integrated medium-term plan in place for the period 2022-23 to 2024-25.

Adrian Crompton
Auditor General for Wales
28 July 2023

Appendix 4

Summary of corrections made

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

Exhibit 2: summary of corrections made

| Value of correction | Nature of correction | Reason for correction |
|---------------------|---|---|
| £14.142 million | <p><u>Other Comprehensive Net Expenditure (OCNE)</u> Increase 'Net gain on revaluation of property, plant and equipment' by £14.142 million.</p> | To ensure the OCNE agrees to 'Total recognised income and expense for 2022-23' in the Statement of Changes in Taxpayers' Equity, and the supporting evidence. |
| £14.4 million | <p><u>Note 29 Events after the Reporting Period</u> Additional disclosure required for the additional pay arrangements for employees covered by the 'Agenda for Change' terms and conditions in Wales for 2022-23.</p> | Additional disclosure required per the Welsh Government's Technical Update 12paper. |
| £3.235 million | <p><u>Note 3.3 Expenditure on Hospital and Community Health Services</u> Increase 'Expenses related to short-term leases' by £3.143 million and 'Expense related to low-value asset leases' (excluding short-term leases) by £0.092 million. Decrease 'Establishment Costs' by £2.983 million and</p> | To ensure Note 3.3 and Note 3.2 agree to Note 8, and the supporting evidence. |

| | | |
|----------------|---|---|
| | 'Private Providers costs' (in Note 3.2) by £0.252 million. | |
| £2.388 million | <p><u>Note 11.3 Right of Use Assets</u></p> <p>Increase 'Transfer of Finance Leases' from the PPE Note for Plant and Machinery by £2.388 million.</p> | To ensure Note 11.3 agrees to Note 11.1, and the supporting evidence. |
| £5.895 million | <p><u>Note 13 Impairments</u></p> <p>Increase 'Changes in market price of Property, Plant and Equipment' by £5.895 million.</p> | To ensure Note 13 agrees to the Statement of Comprehensive Net Expenditure and the supporting evidence. |
| Various | <p><u>Remuneration Report</u></p> <p>The following adjustments were made to the remuneration report:</p> <ul style="list-style-type: none"> the pay band for a senior officer was amended to a lower pay band; the comparatives for the highest paid director banding and the number of employees receiving remuneration in excess of the highest paid director were amended; and the 'Real increase (decrease) in Cash Equivalent Transfer Value for Pension Benefits' was amended for two senior officers. | To correct the disclosures. The corrections to the pay bands are material changes. |

| | | |
|------------------|--|---|
| <p>Various</p> | <p><u>Note 30 Related Party Transactions</u> The following related party transactions were added to Note 30:</p> <ul style="list-style-type: none"> • Aneurin Bevan income and expenditure decreased by £32,000; and • The amount owed to Cardiff University increased by £1,400. | <p>To correct Note 30.</p> |
| <p>Narrative</p> | <p><u>Note 2.3 Duty to prepare a three-year integrated plan</u> The following amendments were made to the note:</p> <ul style="list-style-type: none"> • dates adjusted from 2023-26 to 2022-25; and • more disclosure required to explain when and why the three-year plan was not approved. | <p>To improve sufficient information and clarity.</p> |



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We welcome correspondence and telephone calls in Welsh and English.
Rydym yn croesawu gohebiaeth a galwadau ffôn yn Gymraeg a Saesneg.