

Annual Audit Report 2020 – Velindre University NHS Trust

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Summary report

About this report

- 1 This report summarises the findings from my 2020 audit work at Velindre University NHS Trust (the Trust) 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 Trust, 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 Trust 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 Trust'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 Trust 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 Executive Director of Finance have agreed the factual accuracy of this report. We presented it to the Audit Committee on 21 January 2020. The Board will receive the report at a later Board meeting and every member will receive a copy. We strongly encourage the Trust 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 Trust's staff and members for their help and co-operation throughout my audit.

Key messages

Audit of accounts

- 11 I concluded that the Trust'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 Trust'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 the Ministerial Direction to the Welsh Government to fund NHS Clinicians' pension tax liabilities above the pension savings annual allowance threshold in 2019-20.
- 12 I identified no material financial transactions within the Trust's 2019-20 accounts that were not in accordance with authorities or not used for the purpose intended, and so I have issued an unqualified opinion on the regularity of the financial transactions within the Trust's 2019-20 accounts.
- 13 The Trust achieved financial balance for the three-year period ending 31 March 2020. The Trust has an approved three-year plan in place. As there were no issues which warranted highlighting, no substantive report was placed on the Trust's accounts.

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

- 14 My programme of Performance Audit work has led me to draw the following conclusions:
- the Trust adapted its governance and risk management arrangements to maintain systems of assurance during its response to the first phase of the pandemic and is making progress towards longer-term improvements.
 - the Trust's arrangements for managing financial resources are working well.
 - the Trust has worked well to develop its operational plans and monitor their delivery. There has been ongoing work to identify the resources needed to deliver its plans, but the CHC was not involved early enough in the development of plans.
 - the Trust 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.
- 15 These findings are considered further in the following sections.

Detailed report

Audit of accounts

- 16 This section of the report summarises the findings from my audit of the Trust'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.
- 17 My 2020 Audit Plan set out the financial audit risks for the audit of the Trust'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.
- 18 My responsibilities in auditing the Trust'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

- 19 **I concluded that the Trust'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 Trust'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 the Welsh Government to fund NHS Clinicians' pension tax liabilities above the pension savings annual allowance threshold in 2019-20.**
- 20 I received the draft accounts in line with the revised prescribed deadlines and the supporting working papers were generally prepared to a good standard.
- 21 I reviewed those internal controls that I considered to be relevant to the audit to help me identify, assess and respond to the risks of material misstatement in the accounts. I did not consider them for the purposes of expressing an opinion on the operating effectiveness of internal control. My review did not identify any significant deficiencies in the Trust's internal controls.
- 22 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 Trust's Audit Committee on 25 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 were no misstatements identified in the financial statements, which remained uncorrected.
Corrected misstatements	There were several adjustments made to the draft accounts. These were minor in nature and had no impact on the Trust's reported surplus.
Other significant issues	I placed an Emphasis of Matter paragraph in my audit report to draw attention to disclosures in the accounts relating to the impact of a Ministerial Direction to the Welsh Government to fund NHS Clinicians' pension tax liabilities above the pension savings annual allowance threshold in 2019-20. My opinion was not modified in respect of this matter.

23 My separate audit of the charitable funds financial statements has been completed and I issued an unqualified opinion on the accounts on 18 December 2020.

Regularity of financial transactions

24 **I identified no material financial transactions within the Trust's 2019-20 accounts that were not in accordance with authorities or not used for the purpose intended, and so I have issued an unqualified opinion on the regularity of the financial transactions within the Trust's 2019-20 accounts.**

25 The Trust's financial transactions must be in accordance with the authorities that govern them. It 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 Trust does not have the powers to receive or incur.

26 The Trust achieved financial balance for the three-year period ending 31 March 2020. The Trust has an approved three-year plan in place. As there were no issues which warranted highlighting, no substantive report was placed on the Trust's accounts.

27 I have the power to place a substantive report on the Trust's accounts alongside my opinions where I want to highlight issues. I did not issue a substantive report on

accounts because the Trust met both of its financial duties and there were no other issues warranting report.

- 28 The Trust maintained its track record in achieving financial balance in 2019-20 and reported a small surplus of £24,000. The Trust met its financial duties to break even over the rolling three-year period 2017-2020 and to have an integrated medium-term plan (IMTP) for the period 2019-20 to 2021-22.

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

- 29 I have a statutory requirement to satisfy myself that the Trust 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 Trust over the last 12 months to help me discharge that responsibility. This work has involved:
- undertaking a structured assessment of the Trust's corporate arrangements for ensuring that resources are used efficiently, effectively and economically; and
 - reviewing the effectiveness of the Trust's counter-fraud arrangements.
- 30 My conclusions based on this work are set out below.

Structured assessment

- 31 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.
- 32 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

- 33 My work considered the Trust's ability to maintain sound governance arrangements while having to respond rapidly to the unprecedented challenges presented by the pandemic. My work found **the Trust adapted its governance and risk management arrangements to maintain systems of assurance during its response to the first phase of the pandemic and is making progress towards longer-term improvements.**
- 34 The Trust and its Board worked well under pressure to adapt governance arrangements. Business is shared effectively between the Board, Audit Committee and Quality and Safety Committee. Board business is transparent and well communicated. Information flows effectively from the Trust's executive team to the Board and the Board is clearly central to decision making. Board members provide good scrutiny and there is mutual respect between Board members.
- 35 The Trust continues to review and refine its governance and corporate arrangements and look for ways to improve. The Trust has good arrangements to ensure safe, quality services and to manage risk. It continues to provide good information to assure the Board and its Committees of the quality and safety of its services.

Managing financial resources

- 36 I considered the Trust's financial performance, changes to financial controls during the pandemic and arrangements for monitoring and reporting financial performance. I found that **the Trust's arrangements for managing financial resources are working well.**
- 37 The Trust's arrangements for managing financial resources are working well. It met its financial duties to break even over the financial year 2019-20 and the three-year rolling period 2017-18 to 2019-20. The Trust continues to forecast breakeven in 2020-21. Achieving financial balance requires additional funding to cover the ongoing costs of responding to COVID-19. In December 2020, the Trust received confirmation from the Welsh Government that they would receive the additional funding requested. The Trust has strong financial controls and provides clear information on financial performance and risk for Board scrutiny.

Operational Planning

- 38 My work considered the Trust's progress in developing and delivering the first two quarterly operational plans for 2020-21 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 **the Trust has worked well to develop its operational plans and monitor their delivery. There has been ongoing**

work to identify the resources needed to deliver its plans, but the CHC was not involved early enough in the development of plans.

- 39 The Trust quickly developed operational plans as required by the Welsh Government. The Trust is continually identifying the resources needed to deliver the plans and assessing the unknown implications of the pandemic. The Trust has identified risks to implementing its plans, including the resource implications of restarting services. The Board has been involved with developing the plans and has agreed arrangements to monitor progress. The Trust engaged stakeholders to develop and implement its plans but would benefit from earlier engagement with the Community Health Council to inform future plans.

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 audit plan, I also published an additional report setting out the Trust's specific arrangements for preventing and detecting fraud. I found that **the Trust 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 2: reports issued since my last annual audit report

The following table lists the reports issued to the Trust in 2020.

Report	Date
Financial audit reports	
Audit of Financial Statements Report	June 2020
Opinion on the Financial Statements	July 2020
Audit of Accounts Report Addendum	September 2020
Charitable Funds Audit of Financial Statements Report	December 2020
Opinion on the Charitable Funds Financial Statements	December 2020
Performance audit reports	
Structured Assessment 2020	September 2020
Effectiveness of counter-fraud arrangements	October 2020
Other	
2020 Audit Plan	March 2020
2020 Audit Plan update	April 2020

Exhibit 3: performance audit work still underway

There is one performance audit that is still underway at the Trust. It is shown in the following table, with the estimated date for completion of the work.

Report	Estimated completion date
Quality Governance arrangements	April 2021

Appendix 2

Audit fee

The 2020 Audit Plan set out the proposed audit fee of £208,996 (excluding VAT). My latest estimate of the actual fee, on the basis that some work remains in progress, is £212,996. The increase is due to additional work needed in relation to the audit of the charitable funds accounts. Unfortunately, the additional work meant we were unable to maintain the costs of the audit within the fee of £8,167 (for this element of the work) set out in the 2020 Audit Plan.

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 Trust'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
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].	My audit team proposed to: <ul style="list-style-type: none">• test the appropriateness of journal entries and other adjustments made in preparing the financial statements;• review accounting estimates, judgements and decisions made by management for bias;• evaluate the rationale for any significant transactions outside the normal course of business.	My audit team considered the risk factors set out in ISA240 and completion of our audit work did not identify any evidence of management override of controls.

Audit risk	Proposed audit response	Work done and outcome
<p>COVID-19 is having a significant impact on the capacity of audited bodies to prepare draft accounts in 2019-20. The timetable for producing and certifying the Trust's accounts has been revised but there remains a risk that the quality of the accounts and supporting working papers may be compromised leading to an increased incidence of errors. Quality monitoring arrangements may also be compromised due to timing issues and/or resource availability.</p>	<p>My audit team proposed to assess the impact of COVID-19 on the accounts through:</p> <ul style="list-style-type: none"> • reviewing the closedown process and quality monitoring arrangements with the account's preparation team; • evaluating the impact of COVID-19 on the values and disclosures in the accounts; • reviewing the accounts for any 'new' estimates which could be subject to bias; and • testing accruals for reasonableness and completeness. 	<p>My audit team considered the areas of the accounts most likely to be impacted by COVID-19 and reviewed:</p> <ul style="list-style-type: none"> • the accounts closedown process; • accounting entries in respect of COVID-19 in the 2019-20 accounts; • new accounting estimates made by management; and • creditors and accruals for unrecorded liabilities. <p>Our work found that COVID-19 had a minimal impact on the 2019-20 financial position and confirmed that the position had been correctly disclosed.</p>

Audit risk	Proposed audit response	Work done and outcome
<p>NHS Trusts have a financial duty to break even over a three-year rolling period. Although the Trust is forecasting a break-even position for the year-end, this duty increases the risk that management judgements and estimates included in the financial statements could be biased in an effort to achieve the financial duty.</p> <p>Where the Trust fails this financial duty, I will place a substantive report on the financial statements highlighting the failure.</p>	<p>My audit team proposed to focus its testing on areas of the financial statements which could contain reporting bias.</p>	<p>My audit team considered the areas of the accounts more likely to contain reporting bias and reviewed:</p> <ul style="list-style-type: none"> • accounting estimates, judgments and decisions made by management for bias; • creditors for unrecorded liabilities; and • debtors for overstatement of income due. <p>No matters arose from the work carried out.</p>
<p>A number of changes have taken place to the senior management team during the financial year. There is a risk that these changes are not correctly disclosed within the Trust's Remuneration Report.</p>	<p>My audit team proposed to test the disclosures made in the Remuneration Report and review any changes to roles and responsibilities and associated changes to remuneration levels.</p>	<p>My audit team tested the disclosures made in the Remuneration Report and reviewed changes to roles and responsibilities and the associated changes to remuneration levels.</p> <p>This identified a number of amendments required to the Remuneration Report, which were corrected by the Trust.</p>

Audit risk	Proposed audit response	Work done and outcome response
<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 proposed to consider the accounting treatment and audit implications of the direction (the first in Wales since 1999) in conjunction with the NAO who were addressing the same issue in NHS England.</p>	<p>My audit team considered the accounting treatment and audit implications of the direction. I placed an Emphasis of Matter paragraph in my audit report drawing attention to the disclosures in the accounts relating to the impact of the direction.</p>
<p>The employers pension contribution rate has increased from 14.3% to 20.68% which represents a significant additional cost to the Trust. We understand that the Welsh Government will bear the 2019-20 cost of this increase.</p>	<p>My audit team proposed to test the payroll costs and associated disclosures made in the financial statements to confirm that these additional costs had been disclosed and accounted for correctly.</p>	<p>My audit team tested the payroll costs and associated disclosures which confirmed that the notional pension increase had been correctly accounted for and disclosed in the accounts.</p>



Audit Wales
24 Cathedral Road
Cardiff CF11 9LJ

Tel: 029 2032 0500

Fax: 029 2032 0600

Textphone: 029 2032 0660

E-mail: info@audit.wales

Website: www.audit.wales

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