



WALES AUDIT OFFICE  
SWYDDFA ARCHWILIO CYMRU

Archwilydd Cyffredinol Cymru  
Auditor General for Wales

# 2019 Initial Audit Plan - **Health Education and Improvement Wales**

Audit year: 2018-19

Date issued: November 2018

Document reference: 861A2018-19



This document has been prepared for the internal use of Health Education and Improvement Wales as part of work to be performed in accordance with statutory functions.

No responsibility is taken by the Auditor General, the staff of the Wales Audit Office or, where applicable, the appointed auditor in relation to any member, director, officer or other employee in their individual capacity, or to any third party.

In the event of receiving a request for information to which this document may be relevant, attention is drawn to the Code of Practice issued under section 45 of the Freedom of Information Act 2000. The section 45 Code sets out the practice in the handling of requests that is expected of public authorities, including consultation with relevant third parties. In relation to this document, the Auditor General for Wales, the Wales Audit Office and, where applicable, the appointed auditor are relevant third parties.

Any enquiries regarding disclosure or re-use of this document should be sent to the Wales Audit Office at [infoofficer@audit.wales](mailto:infoofficer@audit.wales).

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.

This document was produced by Helen Goddard, Clare James, Dave Thomas and Mike Usher on behalf of the Auditor General for Wales.

# Contents

## 2019 Initial Audit Plan

Summary	4
Financial audit	4
Performance audit	8
Fee, audit team and timetable	10
General Data Protection Regulation	12
Future developments to my audit work	13
<b>Appendices</b>	
Appendix 1 – respective responsibilities	14
Appendix 2 – other future developments	15

# 2019 Initial Audit Plan

## Summary

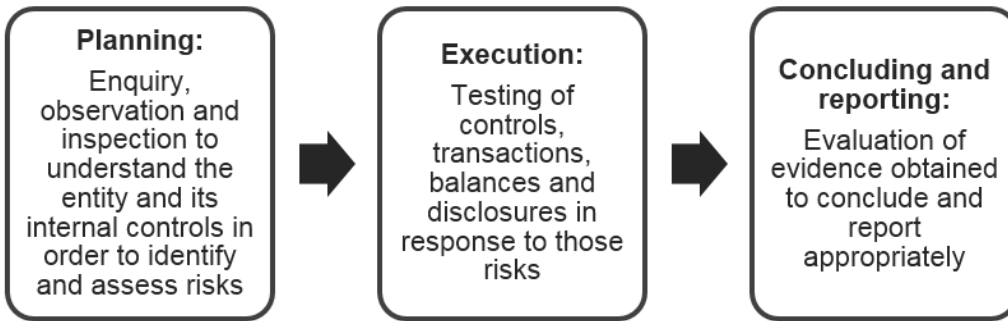
- 1 As the external auditor of the Health Education and Improvement Wales Special Health Authority (the Authority), my objective is to carry out an audit which discharges my statutory duties as Auditor General and fulfils my obligations under the Code of Audit Practice, namely to:
  - examine and certify whether your financial statements are 'true and fair' and lay them before the National Assembly together with any report that I make on them;
  - satisfy myself that the expenditure and income reported in your accounts have been incurred or received lawfully and in accordance with the authorities which govern them; and
  - assess whether you have made proper arrangements for securing economy, efficiency and effectiveness in the use of resources.
- 2 As the Authority only commenced operations on 1 October 2018, the purpose of this plan is to set out my initial proposals for audit work at the Authority, when it will be undertaken, how much it will cost and who will undertake it. I intend to provide the Authority's Audit Committee with a further planning document at its first meeting in 2019, once my proposals for audit work for the remainder of that year have been finalised. From that point on, my audit planning in respect of the Authority will be aligned with my work across the rest of NHS Wales.
- 3 I confirm that there have been no limitations imposed on me in planning the scope of this audit, albeit that of course it has not yet been possible to complete all aspects of my audit risk assessment.
- 4 My responsibilities, along with those of management and those charged with governance, are set out in [Appendix 1](#).

## Financial audit

- 5 It is my responsibility to issue a certificate and report on your 18-month financial statements, which includes an opinion on their 'truth and fairness' and on the regularity of the expenditure and income within them. [Appendix 1](#) sets out my responsibilities in full.
- 6 The audit work that my team undertake to fulfil my responsibilities responds to our assessment of risks. This understanding allows us to develop an audit approach which focuses on addressing specific risks whilst providing assurance for the financial statements as a whole. Our audit approach consists of three phases as set out in [Exhibit 1](#).

**Exhibit 1: my financial audit approach**

Alt Text: This table summarises the three phases of my financial audit approach, being planning, testing and reporting.



7 At this stage of my initial audit planning, the risks of material misstatement which I consider to be significant, and which therefore require special audit consideration, are set out in **Exhibit 2** along with the work I intend to undertake to address them. Also included are other key areas of audit attention my team will be focusing on. Should any further risks arise from my detailed audit planning work, I will incorporate these within the updated Audit Plan that I intend to prepare for consideration by the Audit Committee in February 2019.

**Exhibit 2: Financial audit risks**

Alt text: This table summarises financial audit risks and the corresponding audit work planned in response.

Financial audit risks	Proposed audit response
<b>Significant Risks</b>	
<p><b>Financial statements production – timeliness and quality</b></p> <p>The timetable for producing and certifying financial statements within NHS Wales is demanding. Draft financial statements are required to be submitted for audit on 26 April 2019. The Board will need to approve the audited financial statements by the end of May, for Auditor General certification in early June.</p> <p>The format of the financial statements is still under development with the Welsh Government. The format is required to be in line with other NHS bodies in Wales</p>	<p>My audit team will:</p> <ul style="list-style-type: none"> <li>• provide support and advice to the Authority wherever possible without compromising our independence;</li> <li>• provide an audit deliverables report to assist the Authority in the preparation of relevant working papers in support of the financial statements;</li> <li>• review the closedown timetable and action plans to assess that arrangements are in place to produce robust and complete financial statements within the prescribed timetable;</li> </ul>

Financial audit risks	Proposed audit response
<b>Significant Risks</b>	
<p>with specific disclosure adaptations for the Authority in order for the financial statements to be meaningful.</p> <p>We recognise that the finance officers will still be relatively new in post at the time of preparing the financial statements and there is therefore a risk to the quality and delivery of the financial statements for audit within these set timescales.</p>	<ul style="list-style-type: none"> <li>• review the Authority's proposed accounting statements format for FReM compliance prior to the production of the draft financial statements; and</li> <li>• agree a timetable for the audit and certification of the financial statements.</li> </ul>
<p><b>Opening balances</b></p> <p>As a newly established body receiving asset and liability transfers from other bodies, there is a risk that opening balances at 01/10/18 are misstated.</p>	<p>My audit team will undertake a detailed audit of your opening balances and will report our findings to the Audit Committee in good time to facilitate any process improvements deemed necessary for the production of the year-end financial statements.</p>
<p><b>Transition from the establishment phase to steady state operations</b></p> <p>In its initial months of operation, the Authority is inevitably not operating as a 'steady state' entity.</p> <p>We note in particular that:</p> <ul style="list-style-type: none"> <li>• certain posts currently remain vacant, including some within the finance team itself;</li> <li>• temporary staff are able to leave with very limited notice periods; and</li> <li>• staff from non-NHS predecessor organisations are likely to have only limited knowledge of NHS policies and procedures, which adds to the workload of current and experienced staff and can potentially impact on the ability of teams to deliver within deadlines.</li> </ul>	<p>My audit team will assess the potential impacts of these inherent operating risks on both the true and fair opinion and the regularity audit opinion, consider the effectiveness of the Authority's actions to address them (including the adequacy of financial policies and procedures, provision of induction training etc), and determine whether additional audit procedures are necessary.</p>
<p><b>Management override</b></p> <p>The risk of management override of controls is present in all entities. Due to the unpredictable way in which such override could occur, it is viewed as a significant risk.</p>	<p>My audit team will:</p> <ul style="list-style-type: none"> <li>• check that there is appropriate segregation of duties in place over the operation of material financial systems;</li> <li>• test the appropriateness of journal entries and other adjustments made in preparing the financial statements;</li> <li>• review accounting estimates for biases; and</li> </ul>

Financial audit risks	Proposed audit response
<b>Significant Risks</b>	
	<ul style="list-style-type: none"> <li>• evaluate the rationale for any significant transactions outside the normal course of business.</li> </ul>
<p><b>Revenue recognition</b></p> <p>There is a risk of material misstatement due to fraud in revenue recognition and as such this is treated as a significant risk. Under auditing standards, this is deemed a 'rebuttable presumption'; for the first set of annual financial statements we therefore will give this risk specific audit attention.</p>	<p>My audit team will:</p> <ul style="list-style-type: none"> <li>• discuss with management and those charged with governance their understanding of the risks of fraud facing the authority;</li> <li>• review the application of relevant accounting policies to ensure that they are in compliance with accounting standards;</li> <li>• test the appropriateness of a sample of journals processed to income and non-pay expenditure ledger codes during the year; and</li> <li>• analyse the various income streams and perform substantive procedures on a sample basis to ensure that income has been appropriately accounted for in the correct period.</li> </ul>
<b>Other areas of audit attention</b>	
<p><b>Accounting for VAT</b></p> <p>The Authority brings together activities from predecessor organisations whose VAT status was different to Authority. There is a risk that activities which have been transferred are being incorrectly accounted for.</p>	<p>My audit team will perform substantive procedures on a sample bases to ensure that VAT has been correctly accounted for.</p>
<p><b>New accounting standards</b></p> <p>IFRS 9 financial instruments applies from 1 April 2018 and brings in a new principles-based approach for the classification and measurement of financial assets. It also introduces a new impairment methodology for financial assets based on expected losses rather than incurred losses. This will result in earlier recognition of expected credit losses and will impact on how the Authority calculates its bad debt provision. IFRS 15 revenue from contracts with customers introduces a principles-based five-step model for recognising revenue arising from contracts with customers. It is based on a core principle requiring</p>	<p>My audit team will assess the likely impacts of the new IFRSs and undertake work to respond to any identified risks of material misstatement.</p>

Financial audit risks	Proposed audit response
<b>Significant Risks</b>	
revenue recognition to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration the body expects to be entitled to, in exchange for those goods or services. It will also require more extensive disclosures than are currently required.	

- 8 I do not seek to obtain absolute assurance on the truth, fairness and regularity of the financial statements and related notes but adopt a concept of materiality. My aim is to identify material misstatements, that is, those that might result in a reader of the accounts being misled. The levels at which I judge such misstatements to be material will be reported to the Audit Committee prior to completion of the audit.
- 9 For reporting purposes, we will treat any misstatements below a 'trivial' level (set at 5% of materiality) as not requiring consideration by those charged with governance and therefore we will not report them.
- 10 My fees are based on the following assumptions:
- information provided to support the financial statements is timely, to the quality expected and has been subject to quality assurance review;
  - appropriate accommodation and facilities are provided to enable my audit team to deliver our audit in an efficient manner;
  - all appropriate officials will be available during the audit;
  - you have all the necessary controls and checks in place to enable the Accountable Officer to provide all the assurances that I require in the Letter of Representation addressed to me; and
  - Internal Audit's planned programme of work is complete, and management has responded to issues that may have affected the financial statements.
- 11 My audit fee for this work is included in [Exhibit 4](#).

## Performance audit

- 12 It is my responsibility to satisfy myself that the audited body has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. I do this by undertaking an appropriate programme of performance work each year.
- 13 Typically, my performance audit at an NHS body will include a structured assessment of the organisation's arrangements relating to governance and assurance, financial management and other factors which support the efficient, effective and economical use of resources such as strategic planning, workforce planning, information governance, partnership working, asset management and

procurement. In addition to this work, I also typically look to undertake examinations in specific thematic areas which may cover issues which are relevant to the NHS as a whole, or which are locally specific to a particular NHS body.

- 14 I intend to adopt this approach for my performance audit work at the Authority, although for 2019 I intend to focus my programme of work on reviewing the arrangements that are in place to help ensure Health Education and Improvement Wales is a well-led and well-governed organisation.
- 15 As set out in **Exhibit 3**, I propose to undertake this work as a two phased Structured Assessment exercise. **Phase one** will be undertaken during the early part of 2019 with the aim of providing the Authority with some early commentary on the progress it is making in establishing the arrangements to secure efficient, effective and economical use of resources. **Phase two** will be undertaken later in the year and will allow me to comment on how these arrangements are working in practice, and the progress that is being made on addressing any issues identified by the Phase one work.

**Exhibit 3: contents of my 2019 performance audit work programme**

Alt text: This table sets out my performance audit work programme for 2019, summarising the key areas of focus and approach.

Theme	Approach/key areas of focus
<p><b>NHS Structured Assessment</b></p>	<p>This work will comprise a review of the Authority’s corporate arrangements to secure the efficient, effective and economical use of resources. It will include, but not necessarily be limited to a review of:</p> <ul style="list-style-type: none"> <li>• overall governance and assurance arrangements including the effectiveness of the Board and its sub-committees, risk management and internal control;</li> <li>• strategic planning</li> <li>• engaging / working in partnership with others;</li> <li>• financial, workforce and asset management; and</li> <li>• information technology and governance.</li> </ul> <p>The work will be undertaken in 2 phases as described in paragraph 15 and where appropriate, will include recommendations to help secure improvements.</p> <p>I shall look to the issues identified in the closure report from HEIW Programme Board to inform the design and focus of my Structured Assessment work at the Authority.</p>

- 16 I will engage with the Authority in scoping the exact focus of the work referred to in Exhibit 3. A separate and more detailed specification of the work to be undertaken will be issued to the Authority before the work begins.

- 17 At this stage, I do not propose to include any specific thematic work within my 2019 programme of performance audit work at the Authority, I intend to use my 2019 Structured Assessment work at the Authority as the basis for forming a view on the key organisational risks and challenges facing the organisation. This will inform my planning for future years' performance audit work, including the need to undertake thematic review work in specific areas of the Authority's business.
- 18 In common with my programme of work in other NHS bodies in Wales, in preparing my initial audit plan for the Authority, I have taken account of the work programme of Healthcare Inspectorate Wales (HIW) <sup>1,2</sup>.

## Fee, audit team and timetable

### Fee

- 19 Your estimated fee for 2019 is set out in [Exhibit 4](#).

#### Exhibit 4: audit fee

Alt text: This table sets out the proposed audit fee for 2019, by area of audit work.

Audit area	Proposed fee for 2019 (£) <sup>3</sup>
<b>Financial accounts work</b>	95,000
<b>Performance audit work:</b>	
• Structured Assessment: Phase 1	30,500
• Structured Assessment: Phase 2	49,500
<b>Total fee</b>	175,000

- 20 Planning will be ongoing, and changes to my programme of audit work and therefore my fee, may be required if any key new risks emerge. I shall make no changes without first discussing them with the Director of Finance and Corporate Services.

<sup>1</sup> [Working Together to Provide Assurance \(Wales Audit Office, November 2016\)](#) describes the collective arrangements that the AGW and HIW make use of to review governance arrangements in the NHS

<sup>2</sup> An [operational protocol](#) (March 2015) between HIW and the Auditor General sets out how the two organisations will work together.

<sup>3</sup> The fees shown in this document are exclusive of VAT, which is not charged to you.

21 Further information on my fee scales and fee-setting arrangements can be found on our [website](#).

## Audit team

22 The main members of my audit engagement team, together with their contact details, are summarised in [Exhibit 5](#).

### Exhibit 5: my engagement team

Alt text: this table lists the members of the audit team and their contact details

Name	Role	Contact number	E-mail address
Mike Usher*	Engagement Lead – Financial Audit	07890 564286	<a href="mailto:mike.usher@audit.wales">mike.usher@audit.wales</a>
David Thomas	Engagement Lead – Performance Audit	07798 503064	<a href="mailto:dave.thomas@audit.wales">dave.thomas@audit.wales</a>
Helen Goddard	Financial Audit Manager	07813 449196	<a href="mailto:helen.goddard@audit.wales">helen.goddard@audit.wales</a>
Clare James	Performance Audit Lead	07837 384617	<a href="mailto:clare.james@audit.wales">clare.james@audit.wales</a>
David Burridge	Financial Audit Team Leader	07798 503066	<a href="mailto:dave.burridge@audit.wales">dave.burridge@audit.wales</a>

\*Engagement Director for the Authority.

23 I can confirm that my team members are all independent of the Authority and your officers. In addition, I am not aware of any potential conflicts of interest that I need to bring to your attention.

## Staff secondment

24 The Wales Audit Office has seconded an employee to the Authority from 30 July 2018 for a period of 24 months. The secondment is to the post of 'Head of People', reporting to the Director of Workforce and OD.

25 In order to safeguard against any potential threats to auditor independence and objectivity, the Wales Audit Office and the Authority have agreed the following arrangements:

- the secondee will not perform duties prohibited by the FRC's Revised Ethical Standard 2016 and will not be able to exercise discretionary authority to commit the Authority to a particular position or accounting treatment; and

- the secondee will be properly supervised and will not be involved in the decision taking of the Authority.

## Timetable

26 I will provide reports, or other outputs as agreed, to the Authority covering the areas of work identified in this document. My key milestones are set out in [Exhibit 6](#).

### Exhibit 6: timetable

Alt text: this table sets out the key milestones for the planned audit outputs

Planned output	Work undertaken	Report finalised
2019 Initial Audit Plan	September to October 2018	November 2018
2019 Final Audit Plan	February 2019	February 2019
Financial accounts work: <ul style="list-style-type: none"> <li>• Opening Balances audit</li> <li>• Audit of Financial Statements Report</li> <li>• Opinion on Financial Statements</li> <li>• Financial Accounts Memorandum</li> </ul>	January 2019 November 2018 to May 2019	February 2019 June 2019 June 2019 July 2019
Performance work: <ul style="list-style-type: none"> <li>• Structured Assessment <ul style="list-style-type: none"> <li>- Phase 1</li> <li>- Phase 2</li> </ul> </li> </ul>	January to March 2019 July to November 2019	April 2019 December 2019
Annual Audit Report for 2019	November to December 2019	December 2019
2020 Audit Plan	December 2019 to January 2020	February / March 2020

## General Data Protection Regulation (GDPR)

- 27 The GDPR is a new data protection law for the whole of the EU applicable from 25 May 2018, which has the intention of harmonising and updating data protection laws. The Data Protection Act 2018 incorporated the GDPR into UK law and replaced the 1998 Data Protection Act.
- 28 The GDPR has introduced new requirements for personal data processing, including an accountability principle which require more detailed records of the processing of personal data, evidence of compliance with the data protection

principles and the technical and organisational security measures taken to protect the data. Key areas of additional work for all public bodies include the use of more detailed fair processing notices, more privacy impact assessments and more extensive record keeping in relation to processing activities.

- 29 The Audit Committee may wish to seek early assurances from management that the Authority has assessed and is managing appropriately the risks of non-compliance with the GDPR, in order to inform development of the Authority's Annual Governance Statement later in the financial year

## Future developments to my audit work

- 30 Details of other future developments, including forthcoming changes to key International Financial Reporting Standards (IFRS), the Wales Audit Office's Good Practice Exchange seminars and my planned work on the readiness of the Welsh public for Brexit, are set out in [Appendix 2](#).

# Appendix 1

## Respective responsibilities

My powers and duty to undertake your financial audit are set out in the Public Audit (Wales) Act 2004. It is my responsibility to issue a certificate and report on the financial statements which includes an opinion on:

- their 'truth and fairness', providing assurance that they:
  - are free from material misstatement, whether caused by fraud or error;
  - comply with the statutory and other applicable requirements; and
  - comply with all relevant requirements for accounting presentation and disclosure.
- whether the remuneration report is properly prepared.
- the regularity of the expenditure and income.
- the consistency of other information presented with the financial statements.

It must also state by exception if the Annual Governance Statement does not comply with requirements, if proper accounting records have not been kept, if disclosures required for remuneration and other transactions have not been made or if I have not received all the information and explanations I require.

In addition, I may place a substantive report on the financial statements if I wish to make additional observations on any matters within them.

My powers to undertake performance audit work at the Authority are set out in the Government of Wales Acts 1998 and 2006 and this work also discharges my duty under the Public Audit (Wales) Act 2004 to satisfy myself that the body has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

My audit work does not relieve management and those charged with governance of their responsibilities which include:

- the preparation of the financial statements and annual report in accordance with applicable accounting standards and guidance;
- the keeping of proper accounting records;
- ensuring the regularity of financial transactions; and
- securing value for money in the use of resources.

# Appendix 2

## Other future developments

### A. Forthcoming key IFRS changes

#### Exhibit 7: changes to IFRS standards

Alt text: This table details the key future changes to International Financial Reporting Standards

Standard	Effective date	Further details
IFRS 16 Leases	Expected in 2019-20	IFRS 16 will replace the current leases standard IAS 17. The key change is that it largely removes the distinction between operating and finance leases for lessees by introducing a single lessee accounting model that requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months unless the underlying asset is of low value. It will lead to all leases being recognised on balance sheet as an asset based on a 'right of use' principle with a corresponding liability for future rentals. This is a significant change in lessee accounting.

### B. Good Practice Exchange

The Wales Audit Office's GPX helps public services improve by sharing knowledge and practices that work. Events are held where knowledge can be exchanged face to face and resources shared on line. The main areas of work are regarding financial management, public-sector staff and governance.

Further information, including details of forthcoming GPX events and outputs from past seminars, is available on the Wales Audit Office [website](#).

### C. Brexit: preparations for the United Kingdom's departure from membership of the European Union

In accordance with Article 50 of the Treaty of Rome, on 29 March 2019 the United Kingdom will cease to be a member of the European Union. Negotiations are continuing, and it currently remains unclear whether agreement will be reached on a transition period to 31 December 2020, or whether a 'no deal' immediate exit will take place next March.

The Auditor General has commenced a programme of work looking at the arrangements that the devolved public sector in Wales, including all NHS bodies, is putting in place to

prepare for, and respond to, Britain's exit from the European Union. This will take the form of a high-level overview to establish what is being put in place across the Welsh public sector, and what the key issues are from the perspectives of different parts of the Welsh public service.

The Auditor General intends to carry out this initial work in two tranches. In autumn 2018, he will compile a baseline summary of arrangements being put in place. This will be followed up by further audit fieldwork in spring 2019.

The aim is to produce a report in summer 2019. The report's key messages and recommendations will be framed in the context of the UK moving to a new relationship with the European Union by the end of the planned transition period.

However, if it becomes clear that the UK is likely to leave the European Union without a Withdrawal Agreement (the 'no deal' scenario), we will publish a report as early as possible in 2019, ahead of the UK leaving the European Union on 29 March.



Wales Audit Office  
24 Cathedral Road  
Cardiff CF11 9LJ

Tel: 029 2032 0500

Fax: 029 2032 0600

Textphone.: 029 2032 0660

E-mail: [info@audit.wales](mailto:info@audit.wales)

Website: [www.audit.wales](http://www.audit.wales)

Swyddfa Archwilio Cymru  
24 Heol y Gadeirlan  
Caerdydd CF11 9LJ

Ffôn: 029 2032 0500

Ffacs: 029 2032 0600

Ffôn testun: 029 2032 0660

E-bost: [post@archwilio.cymru](mailto:post@archwilio.cymru)

Gwefan: [www.archwilio.cymru](http://www.archwilio.cymru)