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To: NHS Directors of Finance
NHS Audit Committee Chairs
NHS Board Secretaries
Members of the NHS Technical Accounting Group
Hywel Jones – NHS Director of Finance Welsh Government
John Evans – Welsh Government
Jacqui Salmon – Welsh Government

Dear colleague

NHS – Audit of Accounts 2023-24

- 1 We will shortly commence our accounts audit work for all NHS bodies. We are therefore taking the opportunity to write to you with some important information on how we will undertake your 2023-24 audit.
- 2 Within this letter, we consider the following:
 - the proposed audit timetable for 2023-24;
 - a review of the 22-23 audit of accounts;
 - an update on audit fees; and
 - a look forward to key issues impacting on the 2023-24 accounts and other developments.

The proposed audit timetable for 2023-24

- 3 We wrote to you in March 2023 setting out our proposed timetable for 2022-23 coupled with our rationale. We set out a proposed timetable which reflected:

- the additional resource required to implement our new audit approach driven by ISA 315 (UK) Identifying and Assessing the Risks of Material Misstatement (Revised July 2020);
 - the delays we had experienced in completing the 2021-22 Local Government accounts which in some cases ran well beyond 31 March 2023; and
 - the global shortage of audit and finance professionals, which impacted on our ability to recruit and retain qualified staff.
- 4 Taking the above into account, we proposed the following audit certification deadlines:
- Audit of Accounts 2022-23 – certification by 31 July 2023;
 - Audit of Accounts 2023-24 – certification by 30 June 2024; and
 - Audit of Accounts 2024-25 – certification by 15 June 2025.
- 5 We are grateful for the support of colleagues in all NHS bodies, which enabled all 2022-23 audits except for one Local Health Board (LHB) to be certified by the proposed target date of 31 July 2023.
- 6 We have now reassessed the position for the 2023-24 audit of accounts. Our position has improved on last year. We have made progress embedding the new audit methodology and are further ahead with our audit of Local Government this year than last. However, we are still contending with recruitment and retention challenges which mean we do not envisage quite being able to meet our original planned audit certification deadline for the 2023-24 audit of accounts of 30 June 2024 (as per above).
- 7 We are therefore proposing the following revised audit certification deadlines:
- Audit of Accounts 2023-24 – certification by 15 July 2024; and
 - Audit of Accounts 2024-25 – certification by 15 June 2025.
- 8 As you can see from the above, our intention is to still try and work to our original timetable for the audit of accounts 2024-25. We believe this is achievable when we take into account it will be our third year delivering audits under our new approach which should generate efficiencies. That said, the achievement of the timetable for 2024-25 is not without its challenges, particularly if market conditions persist in respect of the recruitment and retention of qualified auditors.

- 9 We recognise that for the forthcoming audit of accounts 2023-24, our deadline is slightly later than many bodies would like but we believe it is important to set realistic timescales given our current position and alert the Service to our proposals as soon as practically possible.
- 10 We will be working closely with the Welsh Government and NHS finance teams over the next few months to agree the precise timings for submission of draft accounts. There will inevitably be logistical matters to take into account at each body, and we are conscious of the need to factor in Audit Committee, Board and Annual General Meeting (AGM) dates, particularly as Health Boards and Trusts must hold an AGM no later than 31 July each year as per Standing Orders.
- 11 In respect of the Charitable Funds audit or the independent examination, we intend to complete these by the deadline set by the Charities Commission.

Review of the 2022-23 audit of accounts

- 12 Our audits of NHS accounts for the year ended 31 March 2023 were carried out under revised Auditing Standard, ISA 315. In planning our audit at individual Health Bodies, we were required to undertake more detailed and extensive risk assessment procedures to identify the risks of material misstatement and to develop an audit approach designed to address those risks.
- 13 This revised standard had a significant and far-reaching impact on our audit methodology, and we are grateful to Finance Teams for their engagement and the support they provided to our audit teams.
- 14 All audits except for one Local Health Board (LHB) were certified by the agreed administrative certification date - 31 July 2023. The delay for the final LHB was as a result of issues arising during the audit. All NHS bodies were certified before the NHS statutory deadline which is four months after submission of the draft accounts (early September 2023).
- 15 With regards to our audit opinions and reports, none of the NHS Trusts or Strategic Health Authorities received any qualifications. All except one of the LHBs had regularity qualifications for breach of break-even duty. In addition, a number of the LHBs had a substantive report for a failure to meet the second financial duty (lack of an approved financial plan). A summary of our NHS opinions and reports can be seen in **Appendix 1**.
- 16 2022-23 was a technically challenging year due to the quinquennial valuation of the NHS estate and implementation of the new leasing standard - International Financial Reporting Standard (IFRS) 16. As a result, we identified more

adjusted and unadjusted audit adjustments than in previous years. We also continued to see audit adjustments being required to remuneration report disclosures, along with issues relating to the approval of senior officer remuneration. In many cases, we also identified issues with year-end payables balances which increased audit testing. We will continue to work with individual bodies and make recommendations for improvement.

- 17 We held a number of meetings with key NHS finance groups during the year and we intend to continue with these meetings going forward. In particular, we welcomed our invitation to meet with the Audit and Risk Committee Chairs as a group and would be keen to do so again this year.

Update on audit fees

- 18 As a result of ISA 315, the revised audit approach applied in 2022-23 required us to employ more experienced, professionally qualified, staff on the audits, resulting in the larger than usual increase in your audit fee last year. We estimated that fee increase required to support the implementation of this new approach would be around 10.2%. In addition, we also applied a 4.8% fee increase last year in respect of inflation resulting in a combined average fee increase of 15%.
- 19 On the completion of our 2022-23 audits, we initiated a fee review as part of our post-project learning process. In summary, we concluded that the specific uplift of 10.2% to support the implementation of the revised auditing standard was not quite sufficient across all NHS audits. The total amount of further audit cost overrun incurred on NHS audits amounted to 10.1% which is equivalent to £234,000.
- 20 Recognising the cost pressures prevalent across NHS Wales, we have decided not to invoice for these overruns where there were no significant issues arising during the audit process. This means that we will be absorbing overspends of over £100,000. Our ability to absorb these overruns has been made possible this year by identifying additional 'one-off' efficiencies internally and should not be seen as creating a precedent for future years.
- 21 In terms of this year, our Fee Scheme for 2024-25 is now available [Fee Scheme 2024-25 | Audit Wales](#). Our fee rates are increasing on average by 6.4% next year. Some further context is provided in the consultation foreword, but we have incorporated the key message into this letter.
- 22 Like the rest of the public sector, we are facing significant staff cost pressures. As stated above, those are exacerbated by a global shortage of audit and

finance professionals, which we are seeing reflected in our ability to recruit and retain qualified staff.

- 23 It is important that we do all that we can to address the recruitment and retention challenges if we are to continue to bring audit deadlines forward in accordance with the revised timetable set out above. To help offset increasing staff costs, we are taking difficult decisions to reduce our non-staff expenditure. We have moved to smaller, cheaper offices in both South and North Wales, have significantly reduced our travel and associated costs, and removed financial allowances previously paid to staff.
- 24 It is worth pointing out that audit fees have increased significantly across the whole audit profession in response to regulatory pressures, new auditing standards (including, but not limited to, ISA 315) and rising staff costs. The table in **Appendix 2** summarises current Public Sector Audit Appointment (PSAA) rates and then compares them to current Audit Wales fee rates. The table illustrates the very substantial change in PSAA rates over the past four years (following the Redmond Review) and highlights the very marked difference between current local government rates in England and those of Audit Wales. Whilst we are focusing on fee rates within the local government arena, this is indicative of the rising audit costs across the border.
- 25 Legislation requires that the fees we charge may not exceed the full cost of exercising the function to which the fee relates. We set our audit fees based on our estimated cost base, the estimated skills mix for audit work and the estimated number of days required to complete the work. We do not, and cannot, make a profit from our work. Our fees are set at a level to recover the estimated full cost but no more.
- 26 We are also mindful of us moving into the second year of our new audit approach and methodology. On the basis that we are more familiar with the new approach, we are expecting to see some level of efficiency. As stated above, as our fees are set at a level to only recover the full cost, where the full cost is less than the estimated fee, we will issue a refund to individual bodies. In this context, we remain determined to minimise audit fees whilst ensuring that our audit quality continues to meet rigorous standards.
- 27 Your Engagement Director will discuss the proposed fee for your audit once the audit commences and the risk assessment for your organisation has been completed.

A look forward to key issues impacting on the 2023-24 accounts audit and other developments

- 28 As well as reflecting on last year, it is important to have a look at some of the issues that could impact on the 2023-24 accounts.
- 29 **Projected year-end deficits** – we are mindful of the control total deficit of £123 million set by Welsh Government across the whole of the NHS and how challenging this will be for NHS bodies to meet. Given these expectations, we will focus on certain areas, particularly accruals and expenditure around year-end.
- 30 In terms of our wider audit responsibilities, the situation has prompted us to remain focused on themes such as financial sustainability, the realism of savings plans and the continued need for NHS to deliver value for money. Alongside these themes, the Auditor General for Wales places significant importance to seeing high standards of governance and financial management and will continue to shine a light and report on weaknesses in these areas.
- 31 **Executive salary pay points** – this has been a recurring theme for audit over the past few years where executive salaries have been paid over and above the defined salary point determined by the Welsh Government and where Government approval to do so has not been sought or provided. This again will be an area of focus as part of our audit work on the remuneration report. In addition, a disproportionate amount of time is spent seeking to reconcile payments to contracts of employment for senior staff. This is generally an area where health bodies could seek to improve audit evidence.
- 32 **Other technical changes** – at this point in time, we are not anticipating any new significant issues, but we will continue to liaise with Health and Social Services Group (HSSG) and the NHS Technical Accounting Group (TAG).
- 33 **Reintroduction of an interim audit** – for 2022-23, we applied little or no interim audit. This was a deliberate decision due to us commencing NHS audits much later than our normal timings. As we aim to recover and potentially bring the timetable back, we are envisaging moving back to an interim audit this year. This will hopefully take pressure off both Finance and audit teams, particularly during the final audit period scheduled for May and June 2024.
- 34 **Data quality / Analytics Assisted Audit (AAA)** – since the 2020-21 audit cycle, we have been using general ledger data obtained from the NHS Wales Shared Service Partnership (NWSSP) in our Analytics Assisted Audit application to support our audit work. This has realised several benefits with auditors having more accessible and timely access to the data, enhanced risk

assessments and automation of some audit tests. However, we have identified several inefficient processes and barriers to our vision of a more data driven audit, including:

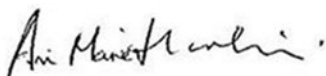
- adjustments cited on working papers not posted through the financial system;
- multiple mapping documents and inconsistent approaches for preparing the individual notes to the accounts; and
- multiple working papers to support individual notes to the accounts.

35 We are initially working with some pilot NHS bodies to try and eradicate these issues with the expectation that it will generate considerable benefits to improving data quality and time saving efficiencies for both audited bodies and auditors. We will engage with the sector on these developments during the early part of 2024.

36 We remain committed to working collaboratively with you to successfully navigate the challenges set out in this letter, building on our shared experiences. We will ensure we attend all the relevant NHS fora to discuss the content of this letter with you and will be arranging meetings with all NHS Directors of Finance and Audit Committee Chairs to provide you with an opportunity to meet with us all.

37 Thank you to you and your teams for working so well with us.

Yours sincerely



Ann-Marie Harkin
Executive Director Audit Services

Appendix 1 – A summary of NHS audit opinions and reports for 2022-23

Health Board	Qualification/Subs Report
Aneurin Bevan	Qualified Regularity – breach of first financial duty (break-even)
Swansea Bay	Qualified Regularity – breach of first financial duty (break-even)
Powys	Qualified Regularity – breach of first financial duty (break-even)
Cardiff & Vale	Qualified Regularity – breach of first financial duty (break-even) Substantive Report – failure to agree an approved financial plan (second financial duty)
Cwm Taf	Qualified Regularity – breach of first financial duty (break-even) Substantive Report – failure to agree an approved financial plan (second financial duty)
Hywel Dda	Qualified Regularity – breach of first financial duty (break-even) Substantive Report – failure to agree an approved financial plan (second financial duty)
Betsi Cadwaladr	Qualified True and Fair opinion – impact of uncertainty coming forward from 21-22 (expenditure and payables) Qualified Regularity – payment to interim executive director above WG approved pay scale not properly approved. Substantive Report – failure to agree an approved financial plan (second financial duty) Note – first financial duty (break-even) unqualified
Velindre	No qualifications
Public Health Wales	No qualifications

Health Board	Qualification/Subs Report
Welsh Ambulance Services NHS Trust	No qualifications
Digital Health and Care Wales	No qualifications
Health Education and Improvement Wales	No qualifications

Appendix 2 – A comparison of current Public Sector Audit Appointment (PSAA) fee rates with Audit Wales

Grade	Audit Wales Fee Rates	Public Sector Audit Appointments (PSAA) Rate Cards	
	2023-24 £	2023-24 £	2018-20 £
Partner / Director	168	414	132
Senior Manager / Manager	129	228	73
Audit Lead	106	148	47
Other	40 - 85	113	36