



**PWYLLGOR ARCHWILIO A SICRWYDD RISG
AUDIT AND RISK ASSURANCE COMMITTEE**

DYDDIAD Y CYFARFOD: DATE OF MEETING:	22 October 2019
TEITL YR ADRODDIAD: TITLE OF REPORT:	Financial Assurance Report
CYFARWYDDWR ARWEINIOL: LEAD DIRECTOR:	Huw Thomas, Director of Finance
SWYDDOG ADRODD: REPORTING OFFICER:	Huw Thomas, Director of Finance

Pwrpas yr Adroddiad (dewiswch fel yn addas)

Purpose of the Report (select as appropriate)

Ar Gyfer Penderfyniad/For Decision

**ADRODDIAD SCAA
SBAR REPORT**

Sefyllfa / Situation

The Audit & Risk Assurance Committee (ARAC) requires assurance on a number of financial areas as outlined in the body of the report.

Cefndir / Background

The Standing Orders require that ARAC provides assurance to the Board that the University Health Board's assurance processes are operating effectively. Critical to this is Financial Assurance, which cannot be measured only by the UHB's main finance report, and requires further information in order to assess the control environment in place; the risk assessment and management process; and the control activities.

Asesiad / Assessment

This report outlines the assurances which can be provided to the Committee.

Argymhelliad / Recommendation

The Audit & Risk Assurance Committee is asked to note the report, and approve the losses and debtors write offs noted within.

Amcanion: (rhaid cwblhau)

Objectives: (must be completed)

Committee ToR Reference Cyfeirnod Cylch Gorchwyl y Pwyllgor	4.4 The Committee's principle duties encompass the following: 4.4.2 Maintain an appropriate financial focus demonstrated through robust financial reporting and maintenance of sound systems of internal control. 5.13 Approve the writing off of losses or the making of special payments within delegated limits.
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	5.15 Receive a report on all Single Tender Actions and extensions of contracts.
Cyfeirnod Cofrestr Risg Datix a Sgôr Cyfredol: Datix Risk Register Reference and Score:	BAF SO9-PR20 BAF SO10-PR33
Safon(au) Gofal ac Iechyd: Health and Care Standard(s):	Governance, Leadership and Accountability 7. Staff and Resources
Amcanion Strategol y BIP: UHB Strategic Objectives:	All Strategic Objectives are applicable
Amcanion Llesiant BIP: UHB Well-being Objectives: Hyperlink to HDdUHB Well-being Statement	Improve efficiency and quality of services through collaboration with people, communities and partners

Gwybodaeth Ychwanegol: Further Information:	
Ar sail tystiolaeth: Evidence Base:	Monitoring returns to Welsh Government based on the Health Board's financial reporting system. Activity recorded in the AR and AP modules of the Oracle business system, activity recorded in the procurement Bravo system.
Rhestr Termiau: Glossary of Terms:	AP-Accounts Payable AR –Accounts Receivable CF –Counter Fraud COS-Contracted Out Service VAT ECN- Error Correction Notice EOY – End Of Year ERs NI-Employers National Insurance HMRC-Her Majesty's Revenue and Customs HOLD- Invoices that cannot be paid, as there is a query with the price or quantity or validity NWSSP-NHS Wales Shared Services Partnership NIC-National Insurance Contribution PID –Patient identifiable data PO –Purchase Order POL –Probability of loss PSP- Public Sector Payment Policy RTI-Real Time Information(transmitted to HMRC from the Payroll system) STA-Single Tender Action VAT-Value Added Tax
Partïon / Pwyllgorau â ymgynhorwyd ymlaen llaw y Pwyllgor Archwilio a Sicrwydd Risg:	UHB's Finance Team UHB's Management Team Executive Team Finance Committee

Parties / Committees consulted prior to Audit and Risk Assurance Committee:	
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Effaith: (rhaid cwblhau) Impact: (must be completed)	
Ariannol / Gwerth am Arian: Financial / Service:	Financial implications are inherent within the report
Ansawdd / Gofal Claf: Quality / Patient Care:	Risk to our financial position affects our ability to discharge timely and effective care to patients
Gweithlu: Workforce:	Overpayments are reported within this report.
Risg: Risk:	Financial risks are detailed in the report.
Cyfreithiol: Legal:	The UHB has a legal duty to deliver a breakeven financial position over a rolling three-year basis and an administrative requirement to operate within its budget within any given financial year.
Enw Da: Reputational:	Adverse variance against the UHB's financial plan will affect our reputation with Welsh Government, the Wales Audit Office, and with external stakeholders
Gyfrinachedd: Privacy:	Not Applicable
Cydraddoldeb: Equality:	Not Applicable

Financial Assurance Report

1.1 Purpose

- The purpose of this report is to outline the financial assurances which the Audit & Risk Assurance Committee requires.
- The framework agreed is included below in Figure 1, and the remainder of the report is based on this.

Figure 1: Compliance requirements for the Audit and Risk Assurance Committee		
Compliance requirement	Reporting	Frequency
Scheme of delegation changes	<ul style="list-style-type: none"> • Exception reporting for approval 	As and when
Compliance with Purchase to Pay requirements	<ul style="list-style-type: none"> • Breaches of the No PO, No Pay policy • Aged payable analysis (over 3 month delayed and £10k in value) for noting • Waivers of Standing Financial Instructions for noting • Public Sector Payment Policy (PSPP) compliance • Invoices on Hold • Tenders awarded for noting • Single tender action 	Quarterly
Compliance with Income to Cash requirements	<ul style="list-style-type: none"> • Aged receivable analysis (over 3 month delayed and £10k in value) for noting • Overpayments of staff salaries and recovery procedures for noting 	Quarterly
Losses & Special payments and Write offs	<ul style="list-style-type: none"> • Write off schedule • Approval of losses and special payments 	
Compliance with Capital requirements	<ul style="list-style-type: none"> • Scheme of delegation approval for capital 	Following approval of annual capital plan
Compliance with Tax requirements	<ul style="list-style-type: none"> • Compliance with VAT requirements • Compliance with employment taxes 	Quarterly
Compliance with Reporting requirements	<ul style="list-style-type: none"> • Changes in accounting practices and policies • Agree final accounts timetable and plans • Review of annual accounts progress • Review of audited annual accounts and financial statements 	Annually
	<ul style="list-style-type: none"> • Statement of assurance from the Finance Committee 	Quarterly

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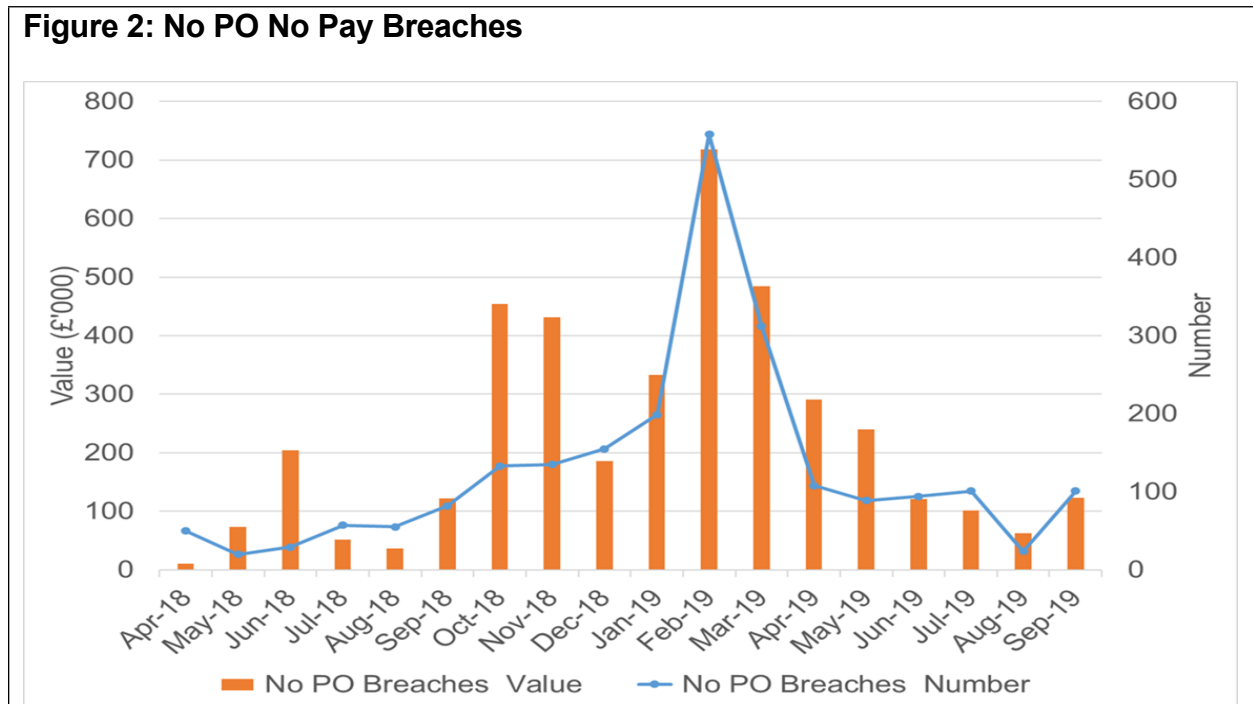
2.1 Scheme of delegation changes

- No changes to report.

2.2 Compliance with Purchase to pay requirements

2.2.1 Breaches of the No PO, No Pay policy

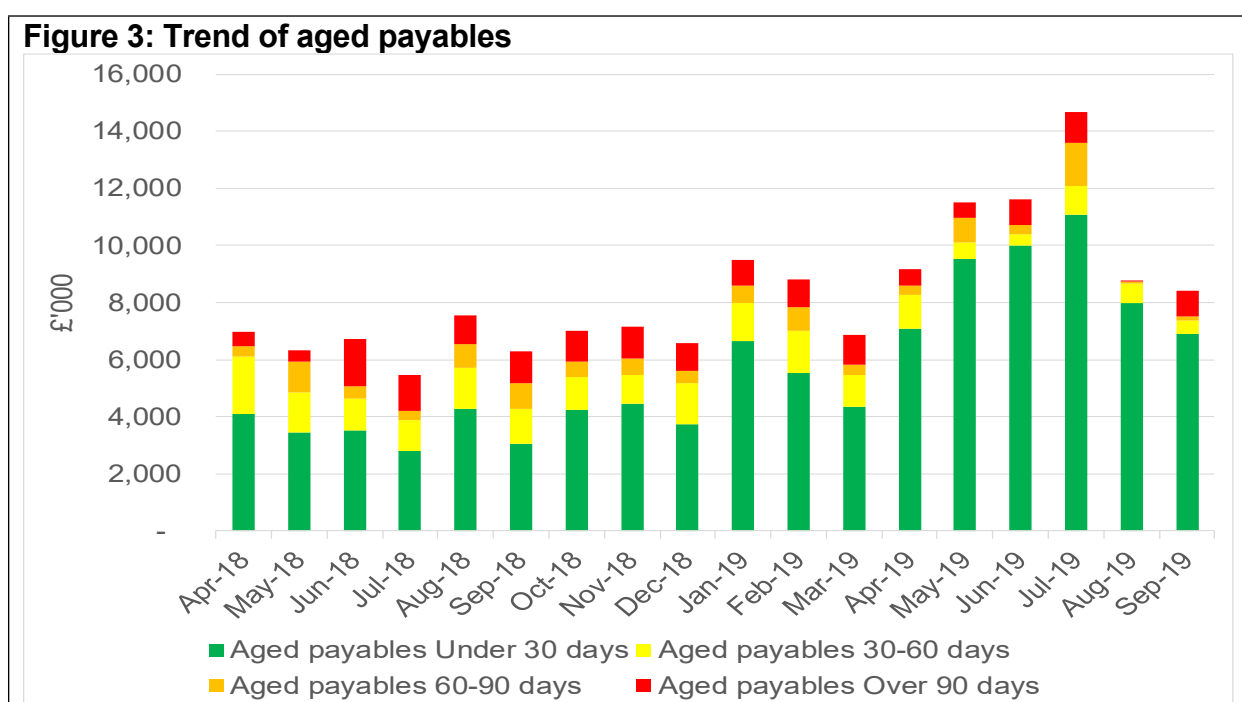
- The Health Board has adopted the All Wales No PO No Pay Policy, which will ensure that all non-pay expenditure (unless listed as an exception) is procured and receipted through the Oracle system.
- Figure below illustrates the numbers and value of breaches against the No PO No Pay policy. This consisted of 125 breaches totalling £185k between the months of August 2019 – September 2019, the cumulative position as at end of September was 336 breaches, £474k in total (31 July cumulative was 292 breaches, £505k in total).
- The downward trend with regards the PO breaches is as a result of targeting areas of non-compliance with letters to suppliers as well as budget holders. This work continues to be ongoing and it is also pleasing to note Hywel Dda's performance is one of the best across NHS Wales.
- There is a new Central Link Officer team in NWSSP which has been set up to target reduction in No PO No Pay invoices on hold in future months.



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2.2.2 Aged payable analysis

- The Health Board's Aged payable trend analysis is shown below. Appendix 3 includes details of the payables in excess of £10,000 and 3 months, and details the actions which have been taken to resolve these issues.
- As at 30th September 2019, there were £8.4m of unpaid supplier invoices in the Oracle financial ledger system; of these, £1.5m were over 30 days old, representing 18% of the overall outstanding number of invoices.
- Compared to the July 2019 figures where the value of the aged payables peaked at £14.7m, there has been a decrease of 33.6% for the latest figures for the end of September. This was primarily due to high value capital payments made in the months of June and July 2019.



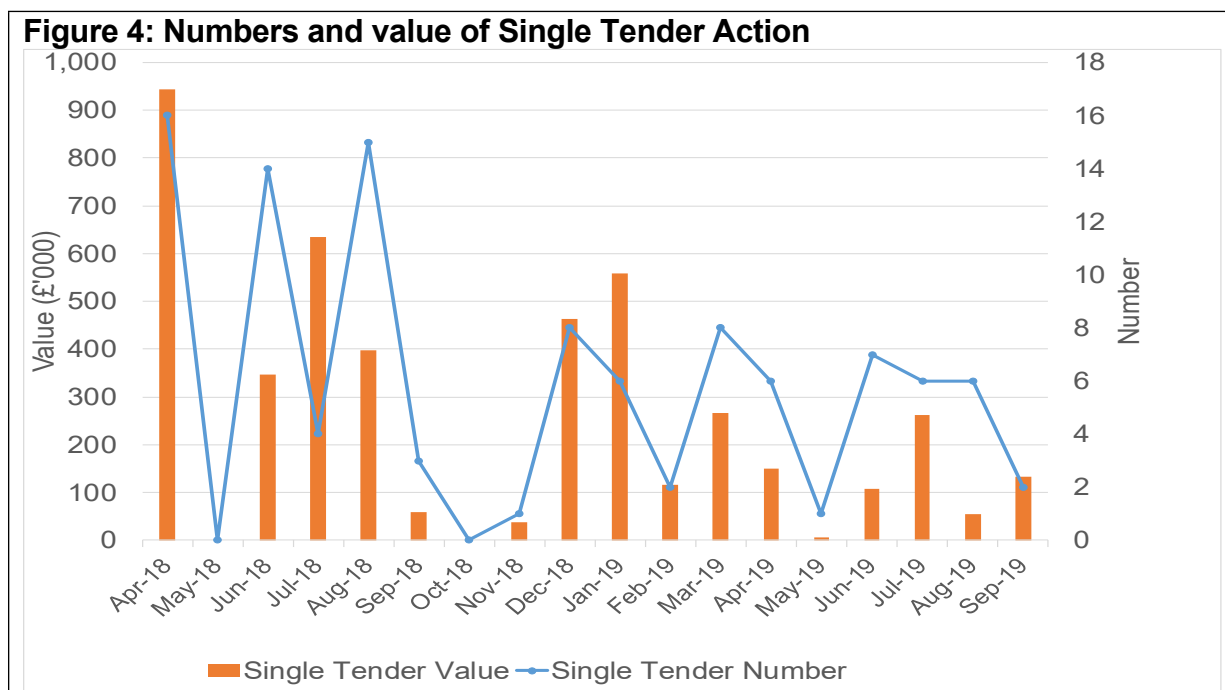
2.2.3 Public Sector Payment Policy (PSPP) compliance

- The Health Board achieved its PSPP target of 95% of its non-NHS invoices being paid within 30 days in September 2019 with 95.9%; cumulative position 94.86%. The failure to achieve the target in July 2019 has affected the cumulative position, this figure will continue to improve whilst the Health Board achieves over 95% on a monthly basis.

2.2.4 Single Tender actions

- The use of single tender waivers is carefully managed and controlled by the Health Board.
- There were 2 Single Tender Actions (in excess of £25,000) approved in the period from 1st August 2019 to 30th September 2019 totalling £133,412 as detailed in Appendix 1.
- The graph below (figure 4) shows the trend of all Single tender actions approved from April 2018 to 30th September 2019.

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2.2.5 Tenders awarded

- There were 2 competitive tenders awarded locally during the period from 1st August 2019 to 30th September 2019, details of which can be seen in Appendix 2.

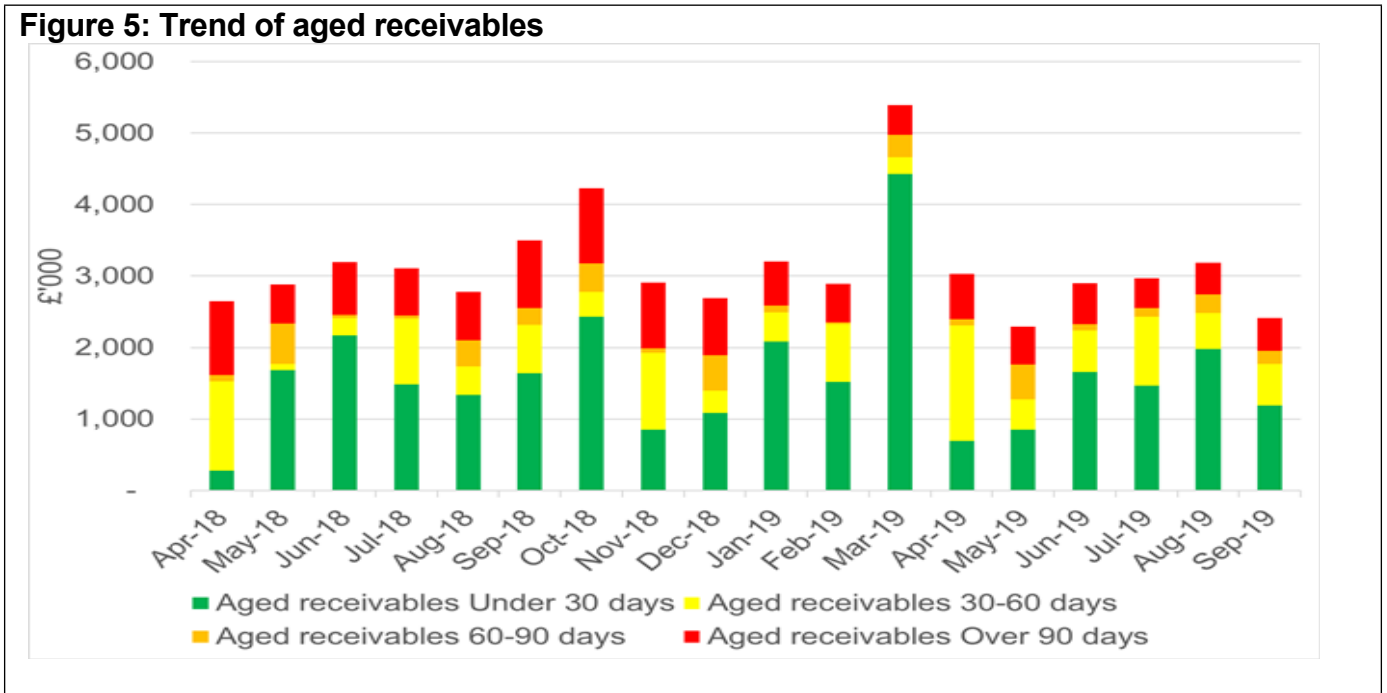
2.3 Compliance with Income to Cash

2.3.1 Aged Receivables

- As at the end of September 2019 there was £2.4m (31 July 2019 £2.9m) of debt owed to the Health Board, of this £1.2m (49%) (31 July 2019 £1.5m, 49%) was under 30 days old
- Appendix 4 includes details of the receivables in excess of £10,000 and 3 months and outlines the actions which have been taken to resolve these longstanding issues.
- The trend of aged receivables is illustrated in Figure 5. Debts in excess of 90 days up to 30th September 2019 amounted to £0.5m (31 July 2019 £0.4m). Of this sum, £0.2m is being managed on our behalf by our debt recovery agency, CCI. A sum of £36,220 is being repaid directly to the Health Board by instalment or salary deduction.

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Figure 5: Trend of aged receivables

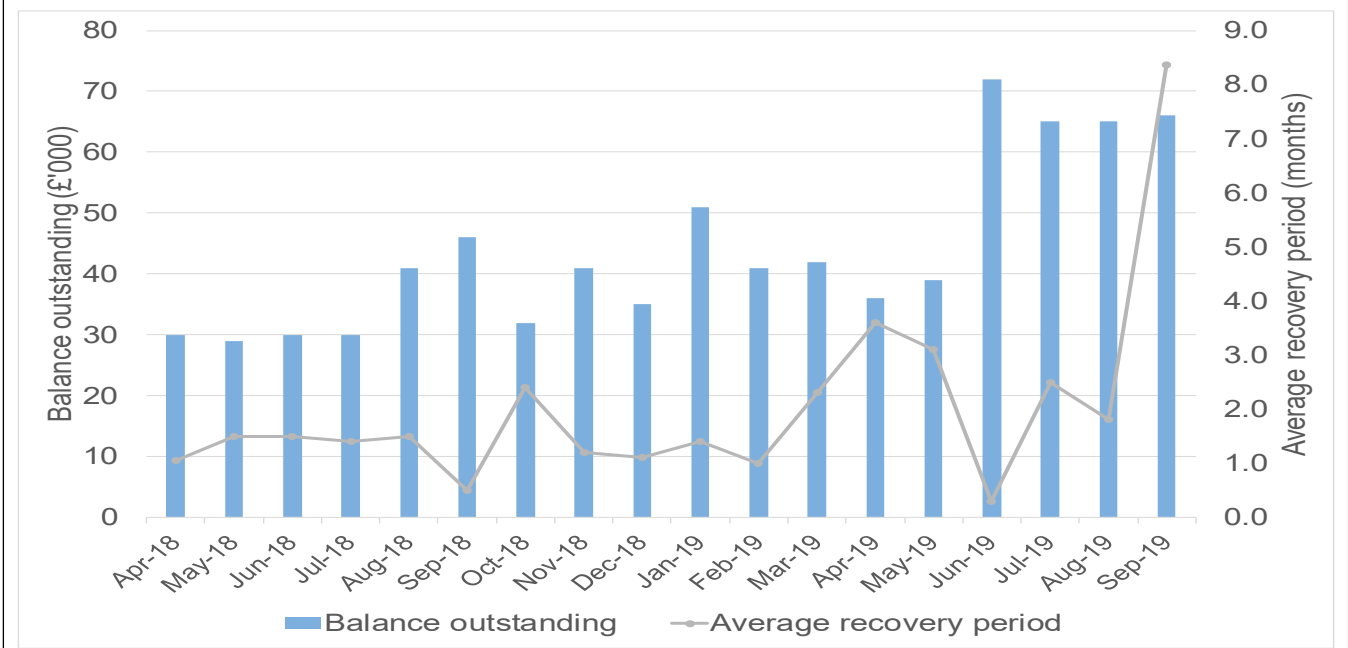


2.3.2 Overpayment of Salaries

- The Health Board has a duty to ensure that staff are paid appropriately, and that overpayments are not incurred. However, these do occur from time to time. In that context, it is imperative that any overpayments are collected over a reasonable timeframe to not introduce a significant risk to the Health Board's financial recovery.
- Appendix 6 shows the numbers and value of overpayments recovered in the period August - September 2019. Of the 9 cases, 7 are as a result in delayed notification to payroll.
- The graph below (Figure 6) demonstrates the total balance outstanding against the average recovery period. The average recovery period reflects the number of debts settled in the current period only. September 2019 has seen a number of older debts settled, which is reflected in the graph below. This shows the increasing numbers in the period August to September 2019.

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Figure 6: Trend of aged overpayments and recoveries



- A task and finish group consisting of Finance, Workforce, Counter Fraud and Payroll colleagues have met to discuss an improvement plan to reduce the number of overpayment and underpayments of salaries processed each month. The Task and Finish Group, in the next couple of months, will be targeting the following areas:
 - Overpayments Policy – Currently the Health Board’s overpayments policy does not align with other policies in Wales. There is currently an all Wales policy being implemented, which is led by NWSSP. The draft policy is due to be circulated in the next couple of months for the Health Boards to review
 - Introducing an Underpayments policy – currently there is no policy in existence and this will be added to the Overpayments policy
 - Removing paper documentation coming into payroll – duplicate paper copies and delays in receiving termination forms/change forms are two of the prime reasons overpayments currently occur. Removing paper forms and ensuring self service is rolled out throughout the Health Board is required.
 - All overpayments made by payroll are recorded on a log sheet – this will be used to identify whether there are patterns across the Health Board. These areas of non-compliance will be targeted and escalated; further escalation to the Director of Finance and Director of Workforce will be undertaken for continued breaches.

The action plan identified by the Task and Finish Group will include the weaknesses identified by the Counter Fraud Overpayments report presented to ARAC in October 2019.

2.4 Losses and Special payments for approval

- Losses and special payments require the Audit & Risk Assurance Committee’s approval given their contentious nature. These are outlined in Appendix 5.
- Losses and special payments amounting to £25,097 have been made for the period 1st August to 30th September 2019. The largest value item relates to the writing off of pharmacy products amounting to £23,553.

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2.5 Compliance with Capital requirements

- No issues to report.

2.6 Compliance with Tax Requirements

2.6.1 Compliance with VAT Requirements

- Several members of the finance department attended a VAT training session hosted by the Health Board's VAT advisors KPMG. The highly interactive session focussed on the VAT liability of the income supplies typically raised by the Health Board.
- No new issues have arisen and an update on the existing issues regarding VAT are set out in the following table:

Key VAT issue	Update
HMRC Accounts Receivable inspection	The Health Board continues to await a response from HMRC after returning responses to the latest information request from HMRC.
Home Technology Salary Sacrifice scheme (closed schemes)	The Health Board continues to await the final assessment and payment request from HMRC in respect of underpaid VAT amounting to circa. £58,000 which the Health Board should have accounted for on the value of assets deemed to have been transferred to employees under the scheme.
Capital Front of House Scheme (Bronglais Hospital)	<p>Discussions have been continuing with HMRC with regards to the calculation of the initial VAT recovery percentage for this scheme's project costs.</p> <p>The Health Board has been notified in September 2019 that HMRC have rejected a re-worked calculation submitted by the Health Board for HMRC's approval in August 2019. The Health Board is currently discussing its options with its VAT advisors.</p>

2.6.2 Compliance with Employment Tax Requirements

- An update on the key current issues within Employment Taxes are set out in the following table:

Key Employment Tax issue	Health Board response and mitigating action
GP Out Of Hours	The Health Board has received notice of HMRC's acceptance of the Health Board's settlement offer in the sum of circa £403k. The invoice has been received in October 2019 and is awaiting approval from the Chief Executive.

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Key Employment Tax issue	Health Board response and mitigating action
Issues with Payroll transmitting RTI information to HMRC	An aged issue concerning incorrect data being transmitted to HMRC via the RTI process continues to be addressed by HMRC and our payroll colleagues. We expect the issue to conclude by the end of December 2019.
Due diligence review of net deduction leased car schemes	As recommended in the findings of a review carried out by the Health Board's tax advisors, the Health Board is in the process of updating the wording within documentation relating to its net deduction lease car schemes in order to make some terms clearer. The Health Board expects to have completed the update of the documentation by the end of October 2019.
Termination payments	<p>In line with the Health Board's action plan, HMRC made a request for information in respect of all settlement payments made to employees in 2018/19 for the purpose of checking the Health Board's adherence to recent changes to legislation concerning Termination Payments.</p> <p>The Health Board returned its response to this request for information in early September 2019 and is currently awaiting HMRC's response.</p>
Home Technology Salary Sacrifice scheme (closed schemes)	The Health Board has made a voluntary disclosure in respect of three schemes for which it did not report a transfer of asset benefit on forms P11D for scheme participants in respect of the 2017/18 tax year and earlier. The Health Board currently awaits the calculation of its liability in respect of the disclosure.

2.7 Compliance with Reporting requirements

- **Statutory Accounts 2019-20** – the date for submission is Friday 1st May 2020. As yet, no formal timetable has been issued by Welsh Government. Board Secretaries will be contacted by Welsh Government in October to discuss the Annual Report.
- **Task and Finish Group IFRS 16** – Work is still underway in relation to the impact of IFRS 16. A paper on IFRS 16 was presented to the Finance Committee on 24th September.

The initial financial assessment of the impact of IFRS 16 was submitted to Welsh Government on 6th September 2019. This will allow Welsh Government to understand the potential impact of the standard on capital expenditure and depreciation for 2020/21.

There are a number of areas which still need to be reviewed on an All Wales level and accounting treatment agreed. These include:

- i) the Picture Archiving Communication System (PACS) and General Practitioner Information Technology Systems. These are being co-ordinated by the Capital Technical Accounting Group
- ii) awaiting values from the District Value Office with regards to peppercorn leases, these will not be available until later this year

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- iii) further work needs to be undertaken in Hywel Dda University Health Board to identify the financial impact associated with Managed Service Contracts.

The Health Board is awaiting clarity from Welsh Government on how they propose to deal with the technical adjustments required to implement IFRS 16. The next submission to Welsh Government will be in November 2019.

- **Charitable Funds Accounts 2018-19** - the Hywel Dda Charities Annual Report and Accounts was approved by the Charitable Funds Committee on the 20th September 2019 and is awaiting final sign off from the Auditor General, this is expected week commencing 7th October 2019.

The ISA260 report produced by Wales Audit Office concluded there were no material errors or weaknesses in the Health Board's internal controls, no concerns about the qualitative aspects of the Health Board's accounting practices and financial reporting, no significant difficulties during the audit and no significant matters discussed and corresponded upon with management which required reporting.

The Charity Commission submission date for the accounts is 31st January 2020, but we will submit as soon as the Auditor General has signed.

2.8 Medical Negligence cases and Personal Injury

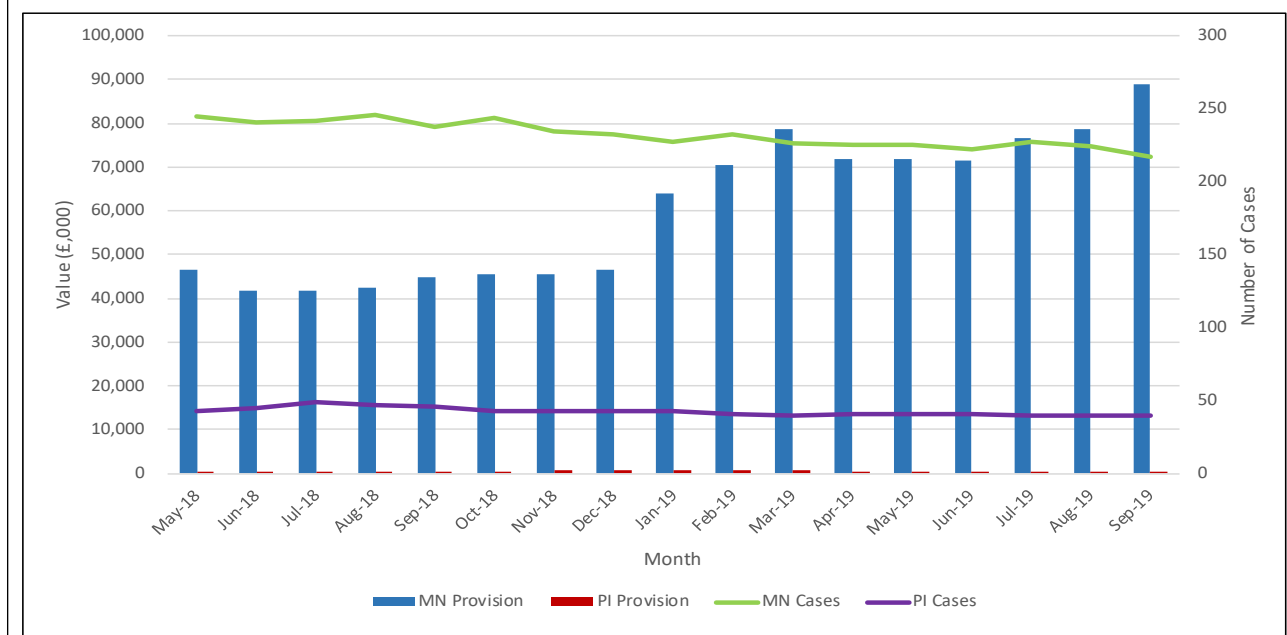
- The Health Board's medical negligence and personal injury cases are managed through NWSSP Legal. As at the end of September 2019 as reported via NWSSP Legal the number of cases and level of provision are as follows:

	No of cases	Level of provision
Medical negligence	217	£89.0m
Personal injury	40	£0.5m

- The graph below illustrates the level of Medical Negligence (MN) and Personal Injury (PI) provisions for a rolling year, from May 2018 onwards. The level of provision increased significantly in September 2019 due to 1 new case accounting for an increase of £5.4m, and a further £7m increase in provision was due to 3 cases being re-assessed and the level of damages for those cases was then increased. The total number of cases decreased by 10 during the period 1st August to 30th September 2019. The Health Board is liable for the first £25,000 for all cases.

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Figure 7: Trend of Medical Negligence (MN) and Personal Injury (PI) cases



3.1 Recommendations

The Committee is asked to note the report and approve the losses and special payments and write off of irrecoverable debts noted in the report.

Appendix 1: Single Tender Actions (in excess of £25,000)

Ref	Period covered by this report:		1 August 2019	30 September 2019	Justification provided
	Supplier	Value (£)	One-off or Period	Department	
HDD468	Carl Zeiss	£34,768.00	12 months	Clinical Engineering	Only one supplier available
HDD477	Getronics	£98,644.34	12 months	ICT	Because of the age of the equipment there is difficulty in finding a supplier who will take on the support of the SOPHO switchboard system.

Appendix 2: Competitive Tenders awarded

	Period covered by this report:		1 August 2019	30 September 2019	
Ref	Supplier	Value (£)	One-off or Period	Department	Justification provided
HDD-ITT-42241	AMP Media	£100,000	2 years	Workforce	Development of Promotional Materials
HDD-MIN-42432	Ernst & Young LLP	£200,000	3 years	Scheduled Care	Follow up Validation Project

Appendix 3: Payables in excess of £10,000 and 3 months

	Period covered by this report:		1 August 2019	30 September 2019	
Ref	Supplier	Value (£)	Date raised	Dispute	Progress to resolve
2019-5300	4S INFORMATION SYSTEMS LTD	15,337.80	24/04/2019	No	Awaiting a valid PO from the supplier as per the No PO No Pay Policy. Reminder letters sent weekly to the supplier
AQ75199	AQUILANT ENDOSCOPY LTD	71,400.00	23/04/2019	No	Supplier has quoted the same PO on multiple invoices, new PO request needs to be sent over to procurement
CI011612	BECTON DICKINSON DISPENSING UK LTD	19,444.31	01/05/2019	No	Awaiting a valid PO from the supplier as per the No PO No Pay Policy. Reminder letters sent weekly to the supplier
95220180	CARMARTHENSHIRE COUNTY COUNCIL	50,000.00	08/03/2019	Yes	Further to advice from Chief Executive's Dept. charge is £25k and a credit of £25k is being pursued with the council
7998	GUARDWATCH SECURITY UK LTD	13,200.00	21/05/2019	No	Paid on the 04/10/19
19116923-RI10656	JOHNSON & JOHNSON MEDICAL LTD	29,250.00	08/04/2019	No	Awaiting a valid PO from the supplier as per the No PO No Pay Policy. Reminder letters sent weekly to the supplier
2010002256	NHS SUPPLY CHAIN	164,396.34	31/05/2019	No	Invoice is on a Quantity hold, Action Point call placed and has been passed onto procurement to notify the end user to receipt the invoice for it to be paid
6571040277	ROCHE DIAGNOSTICS LTD	26,073.14	08/03/2019	No	Awaiting a valid PO from the supplier as per the No PO No Pay Policy. Reminder letters sent weekly to the supplier
APRIL 19E	ST JOSEPHS HOSPITAL	113,927.80	25/04/2019	No	Awaiting a valid PO from the supplier as per the No PO No Pay Policy. Reminder letters sent weekly to the supplier
28576372	STRYKER UK LTD	10,038.00	21/05/2019	No	Awaiting a valid PO from the supplier as per the No PO No Pay Policy. Reminder letters sent weekly to the supplier
1082366	VELINDRE NHS TRUST	10,611.00	23/06/2019	Yes	Invoice has been disputed as it is "in excess of what has been agreed", Assistant Director of IT is to meet with supplier to resolve the matter.

Appendix 4: Receivables in excess of £10,000 and 3 months

	Period covered by this report:		1 August 2019	30 September 2019	
Ref	Supplier	Value (£)	Date raised	Dispute	Progress to resolve
1	Overseas Visitor	22,658.00	14-Mar-2016	Overseas	Overseas visitor case is with CCI Debt Collection. CCI is reviewing how to progress as Overseas Agent has closed the file.
2	Ex Staff	14,261.75	15-Aug-2017	Part of a fraud case	Judgement awarded under a court order. CCI have now been advised to pursue the next step of recovery via legal route which will be undefended action.
3	John Munroe Hospital Group	10,385.00	11-Jan-2019	No	Payment to the wrong supplier made by Accounts Payable. Attempts to recover via internal debt recovery methods exhausted. Referred to external debt collection.
4	NHS South Worcestershire CCG	12,704.00	15-May-2019	No	Notified that passed for payment 25.09.19. Advised by NHS South Worcestershire CCG that this is with their Deputy Chief Finance Officer for authorisation.
5	Ex Staff	19,389.85	05-Jun-2019	Ex fraud case	No progress made via internal debt recovery methods. Referred to external debt collection.
6	NHS Manchester CCG	40,196.00	26-Jun-2019	No	Advised by NHS Manchester CCG that payment will be received on 15.10.19.
	TOTAL	119,594.60			

Appendix 5: Losses and Special Payments for approval

Ref	Losses and Special Payments category	Value (£)	Explanation
	Period covered by this report:		1 August 2019 to 30 September 2019
1	Pharmacy wastage	23,553.16	Expired drugs in Pharmacy
2	Ex Gratia	860.36	Pension charge
3	Ex Gratia	349.00	Lost glasses
4	Ex Gratia	37.00	Repair of dental crown
5	Ex Gratia	71.50	HMRC charge for failure to pay PAYE on time–period 5/4/2017
6	Ex Gratia	70.00	Patients travelling costs incurred through cancellations and clinic over runs
7	Ex Gratia	45.00	Reimbursement of travel costs caused by an administrative error
8	Ex Gratia	19.50	Damaged slippers
9	Ex Gratia	91.30	Late payment of pension charge
	Total Losses (for approval)	25,096.82	

Appendix 6: Overpayment of Salaries

Period covered by this report: 1 August 2019 to 30 September 2019			
Ref	Reason for Overpayment	Value (£)	Number of invoices
1	Recovery of Overpayment of bank salary paid at incorrect pay rate	887.99	1
2	Recovery of Overpayment of Salary following overtaken annual leave entitlement	743.76	1
3	Recovery of Overpayment of Salary following termination of Employment with the Health Board	4,779.66	7
		6,411.41	9