

3.6 Audit Enquiries to Those Charged with Governance and Management

*Presenter: Huw Thomas*

SBAR Audit Enquiries Letter 2018-19

Hywel Dda Audit Enquiries Letter 2018-19

Audit Enquiries Letter 2018-19 Response Final



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

<b>DYDDIAD Y CYFARFOD: DATE OF MEETING:</b>	29 May 2019
<b>TEITL YR ADRODDIAD: TITLE OF REPORT:</b>	Audit Enquiries To Those Charged With Governance and Management
<b>CYFARWYDDWR ARWEINIOL: LEAD DIRECTOR:</b>	Huw Thomas, Director of Finance
<b>SWYDDOG ADRODD: REPORTING OFFICER:</b>	Fiona Powell, Assistant 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 purpose of this report is to seek views on and to approve the proposed formal response to Wales Audit Office in relation to their audit enquiries to those charged with governance and management.

**Cefndir / Background**

The Auditor General for Wales is required to conduct his financial audit in accordance with the requirements set out in International Auditing Standards. The University Health Board's documented consideration and understanding on a number of governance areas which impact on the audit of its financial statements is therefore being sought. These considerations are addressed to both management and those charged with governance (taken to be the Audit & Risk Assurance Committee on behalf of the Board).

The request and proposed response to the Auditor General are attached as Appendix 1, noting that this has been updated since the 7<sup>th</sup> May 2019 ARAC meeting.

**Asesiad / Assessment**

This return ensures compliance with a requirement in International Auditing Standards to document consideration and understanding on certain governance areas that impact on the audit of financial statements.

**Argymhelliad / Recommendation**

The Audit & Risk Assurance Committee is asked to approve submission of the response via the Annual Accounts process to the Auditor General for Wales.

<b>Amcanion: (rhaid cwblhau)</b> <b>Objectives: (must be completed)</b>	
Committee ToR Reference Cyfeirnod Cylch Gorchwyl y Pwyllgor	5.2 Governance, Risk Management and Internal Control
Cyfeirnod Cofrestr Risg Datix a Sgôr Cyfredol: Datix Risk Register Reference and Score:	Not applicable
Safon(au) Gofal ac Iechyd: Health and Care Standard(s):	Governance, Leadership and Accountability
Amcanion Strategol y BIP: UHB Strategic Objectives:	Not Applicable
Amcanion Llesiant BIP: UHB Well-being Objectives: <a href="#">Hyperlink to HDdUHB Well-being Statement</a>	Not Applicable

<b>Gwybodaeth Ychwanegol:</b> <b>Further Information:</b>	
Ar sail tystiolaeth: Evidence Base:	The Board's system of Internal Control and related processes.
Rhestr Termiau: Glossary of Terms:	Included within body of the report.
Partion / Pwyllgorau â ymgynhorwyd ymlaen llaw y Pwyllgor Archwilio a Sicrwydd Risg: Parties / Committees consulted prior to Audit and Risk Assurance Committee:	Board Secretary

<b>Effaith: (rhaid cwblhau)</b> <b>Impact: (must be completed)</b>	
<b>Ariannol / Gwerth am Arian:</b> <b>Financial / Service:</b>	A sound system of financial control enacts robust financial control, safeguards public funds and the Health Board's assets and resources.  Robust governance arrangements underpinning financial management contribute towards internal control and value for money being achieved.
<b>Ansawdd / Gofal Claf:</b> <b>Quality / Patient Care:</b>	No specific impact
<b>Gweithlu:</b> <b>Workforce:</b>	No specific impact
<b>Risg:</b> <b>Risk:</b>	No specific impact

<b>Cyfreithiol: Legal:</b>	Compliance with statutory responsibilities
<b>Enw Da: Reputational:</b>	Provides assurance regarding governance
<b>Gyfrinachedd: Privacy:</b>	No specific impact
<b>Cydraddoldeb: Equality:</b>	No specific impact

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Mr Steve Moore  
Chief Executive  
Hywel Dda University Health Board,  
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**Reference** 0311.amh.hduhb.  
**Date** 11th March 2019  
**Pages** 1 of 2

Dear Steve

**Hywel Dda University Health Board 2018/19 – Audit enquiries to those charged with governance and management**

In my 2019 Audit Plan I set out that I am responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement whether caused by fraud or error. I also set out the respective responsibilities of auditors, management and those charged with governance.

This letter formally seeks documented consideration and understanding on a number of governance areas that impact on my audit of your financial statements. These considerations are relevant to both the management of Hywel Dda University Health Board (the UHB) and ‘those charged with governance’ (the Board).

I have set out below the areas of governance on which I am seeking views.

1. Management processes in relation to:
  - Undertaking an assessment of the risk that the financial statements may be materially misstated due to fraud;
  - Identifying and responding to risk of fraud in the organisation;
  - Communication to employees of views on business practice and ethical behaviour; and
  - Communication to those charged with governance the processes for identifying and responding to fraud.
2. Management’s awareness of any actual or alleged instances of fraud

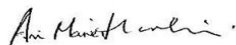
3. How management gain assurance that all relevant laws and regulations have been complied with.
4. Whether there is any potential litigation or claims that would affect the financial statements.
5. Management processes to identify, authorise, approve, account for and disclose related party transactions and relationships.

The information you provide will inform our understanding of the UHB and its business processes and support our work in providing an audit opinion on your 2018-19 financial statements.

I would be grateful if you could complete the attached table in [Appendix 1](#). For information purposes this table also includes the responses provided by the UHB in 2017-18.

Your responses should be formally considered and communicated to us on behalf of both management and those charged with governance by 31 May 2019. In the meantime, if you need anything further, please contact Jeremy Saunders on 07810832434 or by e-mail at [Jeremy.Saunders@audit.wales](mailto:Jeremy.Saunders@audit.wales)

Yours Sincerely



**Ann-Marie Harkin**  
**Engagement Lead**

Cc Mr Huw Thomas, Director of Finance

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## Appendix 1

### Matters in relation to fraud

International Standard for Auditing (UK and Ireland) 240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both management and ‘those charged with governance’, which for the Health Board is the Audit Committee. Management, with the oversight of those charged with governance, should ensure there is a strong emphasis on fraud prevention and deterrence and create a culture of honest and ethical behaviour, reinforced by active oversight by those charged with governance.

As external auditors, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

### What are we required to do?

As part of our risk assessment procedures we are required to consider the risks of material misstatement due to fraud. This includes understanding the arrangements management has put in place in respect of fraud risks. The ISA views fraud as either:

- the intentional misappropriation of assets (cash, property, etc); or
- the intentional manipulation or misstatement of the financial statements.

We also need to understand how those charged with governance exercises oversight of management’s processes. We are also required to make enquiries of both management and those charged with governance as to their knowledge of any actual, suspected or alleged fraud. for identifying and responding to the risks of fraud and the internal controls established to mitigate them.

## Enquiries of management - in relation to fraud

Question	2017-18 Response	2018-19 Response
1. What is management's assessment of the risk that the financial statements may be materially misstated due to fraud and what are the principal reasons?	We consider this risk to be minimal and are not aware of any fraud that would impact materially on our financial statements, based on robust and comprehensive counter fraud and internal audit services. Internal Audit of Treasury Management, Financial Ledger, Accounts and the main financial systems from which the financial statements are prepared, concluded an overall reasonable assurance rating in 2017/18.	We consider this risk to be minimal and are not aware of any fraud that would impact materially on our financial statements, based on robust and comprehensive counter fraud and internal audit services. Internal Audit of Treasury Management and Accounts Receivable concluded an overall reasonable assurance rating and Financial Ledger concluded a substantial rating in 2018/19.
2. What processes are employed to identify and respond to the risks of fraud more generally and specific risks of misstatement in the financial statements?	Executive support of the Counter Fraud agenda in monitoring the intelligence, reporting and investigation of fraud. The application of the NHSSP guidance Standing Orders, Financial Procedures and Health Board policies. Staff training in counter fraud. Use of audit testing and audit recommendation in respect of best practice e.g. segregation of duties to minimise risk.	Executive support of the Counter Fraud agenda in monitoring the intelligence, reporting and investigation of fraud. The application of the NHSSP guidance Standing Orders, Financial Procedures and Health Board policies. Staff training in counter fraud. Use of audit testing and audit recommendation in respect of best practice e.g. segregation of duties to minimise risk.
3. What arrangements are in place to report fraud issues and risks to the Audit Committee?	The Health Board is compliant with the WG Direction 2006 as communicated within the Counter Fraud Annual report which is tested by the NHS Protect Quality Assurance process annually. Communication of any suspected fraud to the three appropriately designated	The Health Board is compliant with WG Directions on Counter Fraud Measures 2006 and employs two full time Counter Fraud Specialists (CFS) for this purpose. The CFS role includes raising awareness of fraud, undertaking preventative action and investigation of potential Fraud Act 2006



## Enquiries of management - in relation to fraud

Question	2017-18 Response	2018-19 Response
	points of contact is completed via the work of Local Counter Fraud Service and with the engagement of the Corporate Communications department.	offences. The Audit and Risk Committee receive regular updates of CFS on all areas of work including production of an Annual Report.
4. How has management communicated expectations of ethical governance and standards of conduct and behaviour to all relevant parties, and when?	Standards of Behaviour Policy is publically available on the Health Board's website and routinely communicated in all Local Counter Fraud presentations (Bribery, Corruption, Gifts and Hospitality is covered) and potentially fraud related elements are notified to staff through the payslip messaging system throughout the year and via global emails. Links to the Counter Fraud policy and associated 'All Wales Raising Concerns (Whistle blowing) Policy', are also made available to all staff via the Counter Fraud page on the staff intranet. Induction training and the Managers Passport training sessions include Counter Fraud presentations.	Standards of Behaviour Policy is publically available on the Health Board's website and routinely communicated in all Local Counter Fraud presentations (Bribery, Corruption, Gifts and Hospitality is covered) and potentially fraud related elements are notified to staff through the payslip messaging system throughout the year and via global emails. The Standards of Behaviour Policy will be refreshed as part of its three year review in May 2019. Links to the Counter Fraud policy and associated 'All Wales Raising Concerns (Whistle blowing) Policy', are also made available to all staff via the Counter Fraud page on the staff intranet. Induction training and the Managers Passport training sessions include Counter Fraud presentations.
5. Are you aware of any instances of actual, suspected or alleged fraud within the audited body since 1 April 2017?	The Health Board employs 2 full time Local Counter Fraud Specialists who investigate all suspicions of fraud within the Organisation. The Health Board has a Counter Fraud Policy which requires all instances of Fraud to be reported to the Local Counter Fraud Specialist for review and investigation	The Health Board employs 2 full time Local Counter Fraud Specialists who investigate all suspicions of fraud within the Organisation. The Health Board has a Counter Fraud Policy which requires all instances of Fraud to be reported to the Local Counter Fraud Specialist for review and investigation as required. The LCFS

**Enquiries of management - in relation to fraud**

Question	2017-18 Response	2018-19 Response
	<p>as required.</p> <p>The LCFS logs all cases of suspected fraud on the NHS fraud case management system and investigates matters in line with relevant legislation and the NHS counter fraud manual.</p> <p>Since 1 April 2017 37 cases of fraud have been actively investigated. Of these 19 cases remain open for investigation with 1 case proceeding to Crown Court for sentencing and 1 case file with CPS for prosecution decision. 14 cases were closed as no fraud found or proven, 3 cases were concluded as No fraud found or proven but disciplinary sanctions applied and 1 case where Fraud found and sanction(s) applied criminal, civil and disciplinary.</p>	<p>logs all cases of suspected fraud on the NHS fraud case management system and investigates matters in line with relevant legislation and the NHS counter fraud manual.</p> <p>Since 01 April 2018 36 cases of fraud have been actively investigated. Of these 18 remain open for investigation with one case proceeding to Court and one case file with CPS for prosecution decision. 6 cases resulted in an internal sanction and 12 cases were closed as no fraud found or proven.</p> <p>Civil/Voluntary financial recoveries of £24,467.55 were made in 5 cases.</p>

**Enquiries of those charged with governance – in relation to fraud**

Question	2017-18 Response	2018-19 Response
<p>1. How does the Audit and Risk Committee, exercise oversight of management's processes for identifying and responding to the risks of fraud within the audited body and the internal control that management has established to mitigate those risks?</p>	<p>The Lead Counter Fraud Officer links on a regular basis with the Board Secretary. Adherence with the Counter Fraud work plan is also reviewed and progress/ recommendations are reported to Audit and Risk Assurance Committee.</p>	<p>The CFS have established a Fraud theme on the Health Board's Risk Management System. This allows all staff to register fraud risks on their own risk register for the attention of CFS. Adherence with the Counter Fraud work plan is also reviewed and progress/recommendations are reported to Audit and Risk Assurance Committee.</p>
<p>2. Are you aware of any instances of actual, suspected or alleged fraud with the audited body since 1 April 2017?</p>	<p>The Health Board employs 2 full time Local Counter Fraud Specialists who investigate all suspicions of fraud within the Organisation. The Health Board has a Counter Fraud Policy which requires all instances of Fraud to be reported to the Local Counter Fraud Specialist for review and investigation as required.</p> <p>The LCFS logs all cases of suspected fraud on the NHS fraud case management system and investigates matters in line with relevant legislation and the NHS counter fraud manual.</p> <p>Since 1 April 2017 37 cases of fraud have been actively investigated. Of these 19 cases remain open for investigation with 1 case proceeding to Crown Court for sentencing and 1 case file with CPS</p>	<p>The Health Board employs 2 full time Local Counter Fraud Specialists who investigate all suspicions of fraud within the Organisation. The Health Board has a Counter Fraud Policy which requires all instances of Fraud to be reported to the Local Counter Fraud Specialist for review and investigation as required.</p> <p>The LCFS logs all cases of suspected fraud on the NHS fraud case management system and investigates matters in line with relevant legislation and the NHS counter fraud manual.</p> <p>Since 01 April 2018 36 cases of fraud have been actively investigated. Of these 18 remain open for investigation with one case proceeding to Court and one case file with CPS for prosecution decision. 6 cases resulted in an internal sanction and 12</p>

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**Enquiries of those charged with governance – in relation to fraud**

<b>Question</b>	<b>2017-18 Response</b>	<b>2018-19 Response</b>
	for prosecution decision. 14 cases were closed as no fraud found or proven, 3 cases were concluded as No fraud found or proven but disciplinary sanctions applied and 1 case where Fraud found and sanction(s) applied criminal, civil and disciplinary.	cases were closed as no fraud found or proven.  Civil/Voluntary financial recoveries of £24,467.55 were made in 5 cases.

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## Appendix 2

### **Matters in relation to laws and regulations**

International Standard for Auditing (UK and Ireland) 250 covers auditors responsibilities to consider the impact of laws and regulations in an audit of financial statements.

Management, with the oversight of those charged with governance the Audit Committee, is responsible for ensuring that the Health Board's operations are conducted in accordance with laws and regulations, including compliance with those that determine the reported amounts and disclosures in the financial statements.

As external auditors, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. The ISA distinguishes two different categories of laws and regulations:

- laws and regulations that have a direct effect on determining material amounts and disclosures in the financial statements;
- other laws and regulations where compliance may be fundamental to the continuance of operations, or to avoid material penalties.

### **What are we required to do?**

As part of our risk assessment procedures we are required to make inquiries of management and the Audit Committee as to whether the Health Board is in compliance with relevant laws and regulations. Where we become aware of information of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

## Enquiries of management – in relation to laws and regulations

Question	2017-18 Response	2018-19 Response
1. How have you gained assurance that all relevant laws and regulations have been complied with?	<p>Legal implications are considered as necessary in all papers to the Board or Board Committees. In addition a legislative assurance framework is in place, reporting to the Audit &amp; Risk Assurance Committee. Executive Directors also have delegated responsibilities which are captured in the Detailed Scheme of Delegation. The Chief Executive is responsible for performance management of Directors and for providing assurance to the Board. In addition, compliance with laws and regulations are tested by the Board's Committees which are supported in this task by internal and external audit and assurance testing.</p>	<p>Legal implications are considered as necessary in all papers to the Board or Board Committees. In addition a legislative assurance framework is in place, reporting to the Audit &amp; Risk Assurance Committee. Executive Directors also have delegated responsibilities which are captured in the Detailed Scheme of Delegation. The Chief Executive is responsible for performance management of Directors and for providing assurance to the Board. In addition, compliance with laws and regulations are tested by the Board's Committees which are supported in this task by internal and external audit and assurance testing. The Directors are also part of national peer groups and work with other Health Boards to gain assurance.</p>
2. Have there been any instances of non-compliance or suspected non-compliance with relevant laws and regulations since 1 April 2018, or earlier with an ongoing impact on the 2018-19 financial statements?	<p>There have been no instances.</p>	<p>There have not been any instances of non-compliance or suspected non-compliance with relevant laws and regulations since 1 April 2018, or earlier with an ongoing impact on the 2018-19 financial statements. However ARAC are aware of an issue with non-compliance with the European Working Time Directive, with switchboard staff working in the IM&amp;T directorate. Management are investigating a short term solution prior to the upgrade of the switchboard system. The Board has</p>

		been made aware of the non-compliance. This is documented within the Health Board's wider legislative assurance framework. The breach would not have a material impact on the Financial Statements of the Health Board
3. Are there any potential litigations or claims that would affect the financial statements?	All known litigations/claims are either provided for within the financial statements or disclosed as a contingency liability or contingent asset as appropriate.	All known litigations/claims are either provided for within the financial statements or disclosed as a contingency liability or contingent asset as appropriate.
4. Have there been any reports from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	No	No

### Enquiries of those charged with governance – in relation to laws and regulations

Question	2017-18 Response	2018-19 Response
1. How does the Audit and Risk Committee, in its role as those charged with governance, obtain assurance that all relevant laws and regulations have been complied with?	The Audit & Risk Assurance Committee, through the Health Board's reporting process is provided with assurance from the monitoring committees sand sub committees. Any known/identified departure from compliance would be highlighted by this means. In addition, the Audit & Risk Assurance Committee scrutinises the Legislative Assurance Framework presented to it by management. This document and the accompanying report outlines the action	The Audit & Risk Assurance Committee, through the Health Board's reporting process is provided with assurance from the monitoring committees sand sub committees. Any known/identified departure from compliance would be highlighted by this means and the associated risks of non-compliance assessed and managed appropriately by the lead. In addition, the Audit & Risk Assurance Committee scrutinises the Legislative Assurance Framework

**Enquiries of those charged with governance – in relation to laws and regulations**

Question	2017-18 Response	2018-19 Response
	<p>being taken to ensure the Health Board can be confident that it is complying with existing requirements and is in a position to respond to new legislation.</p>	<p>presented to it by management. This document and the accompanying report outlines the action being taken to ensure the Health Board can be confident that it is complying with existing requirements and is in a position to respond to new legislation.</p>
<p>2. Are you aware of any instances of non-compliance with relevant laws and regulations?</p>	<p>No</p>	<p>There have not been any instances of non-compliance or suspected non-compliance with relevant laws and regulations since 1 April 2018, or earlier with an ongoing impact on the 2018-19 financial statements. However ARAC are aware of an issue with non-compliance with the European Working Time Directive, with switchboard staff working in the IM&amp;T directorate. Management are investigating a short term solution prior to the upgrade of the switchboard system. The Board has been made aware of the non-compliance. This is documented within the Health Board’s wider legislative assurance framework. The breach would not have a material impact on the Financial Statements of the Health Board</p>





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## Appendix 3

### **Matters in relation to related parties**

International Standard for Auditing (UK and Ireland) 550 covers auditors responsibilities relating to related party relationships and transactions.

The nature of related party relationships and transactions may, in some circumstances, give rise to higher risks of material misstatement of the financial statements than transactions with unrelated parties.

Because related parties are not independent of each other, many financial reporting frameworks establish specific accounting and disclosure requirements for related party relationships, transactions and balances to enable users of the financial statements to understand their nature and actual or potential effects on the financial statements. An understanding of the entity's related party relationships and transactions is relevant to the auditor's evaluation of whether one or more fraud risk factors are present as required by ISA (UK and Ireland) 240, because fraud may be more easily committed through related parties.

### **What are we required to do?**

As part of our risk assessment procedures, we are required to perform audit procedures to identify, assess and respond to the risks of material misstatement arising from the entity's failure to appropriately account for or disclose related party relationships, transactions or balances in accordance with the requirements of the framework.

## Enquiries of management – in relation to related parties

Question	2017-18 Response	2018-19 Response
<p>1. Confirm that you have disclosed to the auditor:</p> <ul style="list-style-type: none"> <li>• the identity of any related parties, including changes from the prior period;</li> <li>• the nature of the relationships with these related parties;</li> <li>• details of any transactions with these related parties entered into during the period, including the type and purpose of the transactions.</li> </ul>	<p>Yes, fully disclosed within the Annual Accounts</p>	<p>Yes, will be fully disclosed within the Annual Accounts.</p>
<p>2. What controls are in place to identify, authorise, approve, account for and disclose related party transactions and relationships?</p>	<p>A fully comprehensive Declaration of Interest form is completed and returned by each Board member annually. This declaration is also returned if there are any changes in interests throughout the year. In addition any Board member may declare any change in their interests at the Board meetings. A central Register of Interests is maintained, copies of this central register together with the signed declarations are made available to Finance in order that all related party financial transactions are identified and incorporated in the Annual Accounts. These financial transactions are then subject to WAO and Audit Committee scrutiny. Each Board member has the opportunity to disclose interests at</p>	<p>A fully comprehensive Declaration of Interest form is completed and returned by each Board member annually. This declaration is also returned if there are any changes in interests throughout the year. In addition any Board member may declare any change in their interests at the Board meetings. A central Register of Interests is maintained, copies of this central register together with the signed declarations are made available to Finance in order that all related party financial transactions are identified and incorporated in the Annual Accounts. These financial transactions are then subject to WAO and Audit Committee scrutiny. Each Board member has the opportunity to disclose interests at each Board meeting.</p>

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each Board meeting.

**Enquiries of the those charged with governance – in relation to related parties**

<b>Question</b>	<b>2017-18 Response</b>	<b>2018-19 Response</b>
1. How does the Audit Committee, in its role as those charged with governance, exercise oversight of management's processes to identify, authorise, approve, account for and disclose related party transactions and relationships?	The Audit & Risk Assurance Committee on behalf of the Board considers related party disclosures as an integral element of its scrutiny of the annual accounts and underpinning processes and is assured through SFIs and underpinning Financial Procedure that there are effective internal controls.	The Audit & Risk Assurance Committee on behalf of the Board considers related party disclosures as an integral element of its scrutiny of the annual accounts and underpinning processes and is assured through SFIs and underpinning Financial Procedure that there are effective internal controls.