

Bundle Audit & Risk Assurance Committee 7 May 2019

2.3 Draft Audit & Risk Assurance Committee Annual Report 2018/19

Presenter: Chair

SBAR Draft ARAC Annual Report ARAC May 2019

ARAC Annual Report 2018-19 - Final draft 26 04 19

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

DYDDIAD Y CYFARFOD: DATE OF MEETING:	07 May 2019
TEITL YR ADRODDIAD: TITLE OF REPORT:	Draft Audit and Risk Assurance Committee Annual Report 2018/19
CYFARWYDDWR ARWEINIOL: LEAD DIRECTOR:	Mr Paul Newman, Chair of Audit & Risk Assurance Committee
SWYDDOG ADRODD: REPORTING OFFICER:	Mr Paul Newman, Chair of Audit & Risk Assurance Committee

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 the paper is to present the Audit and Risk Assurance Committee (ARAC) Annual Report to Members. The attached report provides assurances in respect of the work that has been undertaken by the ARAC in the 2018/19 financial year and provides information relating to the continued development of the role of the committee and its members.

The attached report supports the compilation of the Annual Governance Statement and sets out how the ARAC has met its Terms of reference. The report has been compiled by the Chair of the ARAC based upon the work of the Committee.

Cefndir / Background

The Committee, through its in-year reporting, has regularly kept the Board informed about the results of its reviews of assurances together with any exceptional issues that arose. In accordance with the NHS Wales Audit Committee handbook and generally accepted standards of good practice, the ARAC Chair is required to issue an Annual Report of the matters that have been considered by the Committee during the financial year.

The report provides the Board and the Accountable Officer with assurance in respect of the adequacy and effectiveness of the UHB's procedures and systems in maintaining a sound system of internal control and the conclusions drawn for the 2018/19 financial year. This is to include assurance about the rigour of the processes and the quality of the data which lie behind the statements and provide its own assurance about the reliability of the disclosures when they are subsequently submitted to the Board for approval.

Aseiad / Assessment

Please see the attached ARAC Annual Report.

Argymhelliad / Recommendation

The Audit & Risk Assurance Committee is asked to endorse the content of the report for onward submission to the Board.

Amcanion: (rhaid cwblhau) Objectives: (must be completed)	
Committee ToR Reference Cyfeirnod Cylch Gorchwyl y Pwyllgor	10.5.1 Report formally, regularly and on a timely basis to the Board on the Committee's activities. This includes the submission of a Committee update report as well as the presentation of an annual report within six weeks of the end of the financial year and timed to support the preparation of the Annual Governance Statement. This should specifically comment on the adequacy of the assurance framework, the extent to which risk management is comprehensively embedded throughout the organisation, the integration of governance arrangements and the appropriateness of self-assessment activity against relevant standards. The report will also record the results of the Committee's self-assessment and evaluation.
Cyfeirnod Cofrestr Risg Datix a Sgôr Cyfredol: Datix Risk Register Reference and Score:	N/A
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: Hyperlink to HDdUHB Well-being Statement	Not Applicable

Gwybodaeth Ychwanegol: Further Information:	
Ar sail tystiolaeth: Evidence Base:	ARAC Agenda & Papers
Rhestr Termau: Glossary of Terms:	N/A
Partïon / Pwyllgorau â ymgynhorwyd ymlaen llaw y Pwyllgor Archwilio a Sicrwydd Risg: Parties / Committees consulted prior to Audit and Risk Assurance Committee:	ARAC Chair

Effaith: (rhaid cwblhau) Impact: (must be completed)	
Ariannol / Gwerth am Arian: Financial / Service:	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.
Ansawdd / Gofal Claf: Quality / Patient Care:	A sound system of internal control ensures that any risks to the achievement of the Health Board's objectives are identified, assessed and managed.
Gweithlu: Workforce:	Not applicable
Risg: Risk:	Not applicable
Cyfreithiol: Legal:	Not applicable
Enw Da: Reputational:	Not applicable
Gyfrinachedd: Privacy:	Not applicable
Cydraddoldeb: Equality:	<ul style="list-style-type: none"> • Has EqIA screening been undertaken? No • Has a full EqIA been undertaken? No



GIG
CYMRU
NHS
WALES

Bwrdd Iechyd Prifysgol
Hywel Dda
University Health Board

AUDIT AND RISK ASSURANCE COMMITTEE

ANNUAL REPORT

2018/19

Table of Contents

1	Introduction.....	2
2	Role and Purpose	2
3	Committee Structure and Meetings	5
4	Committee Work Programme 2018/2019	7
5	External Audit – Wales Audit Office.....	7
6	NWSSP - Internal Audit	9
7	NWSSP – Specialised Services Unit (Capital Audit and PFI).....	12
8	Head of Internal Audit Opinion.....	12
9	Counter Fraud.....	13
10	Financial Reporting and Financial Position	14
11	Standing Orders, Standing Financial Instructions and Financial	
	Procedures.....	15
12	Losses and Special Payments	15
13	Assurance on Clinical Governance	15
14.	Other Committee Work.....	16
15.	Forward Plan	19
16.	Conclusions	20

1 Introduction

- 1.1 The Audit and Risk Assurance Committee is established under Board delegation with approved Terms of Reference and Operating Arrangements that are aligned to the NHS Wales Audit Committee Handbook, published by the Welsh Government. The Committee is an independent Committee of the Board and has no Executive powers other than those specifically delegated in the Terms of Reference.
- 1.2 The Committee, through its in-year reporting, has regularly kept the Board informed regarding the results of its reviews of assurances together with any exceptional issues that arose. In accordance with the NHS Wales Audit Committee Handbook guidance and generally accepted standards of good practice, the Audit and Risk Assurance Committee is required to issue an Annual Report of the Committee, constituting a formal report of the matters that have been considered by the Committee. The purpose of this report therefore is to provide the Board and the Accountable Officer with assurance in respect of the adequacy and effectiveness of the University Health Board's (UHB) procedures and systems in maintaining a sound system of internal control and the conclusions drawn for the 2018/19 financial year. This report supports the compilation of the Accountability Report and sets out how the Committee has met its Terms of Reference.

2 Role and Purpose

- 2.1 The Audit and Risk Assurance Committee supports the Board by critically reviewing governance and assurance processes on which the Board places reliance. The primary role of the Committee is therefore to ensure the system of assurance is valid and suitable for the Board's requirements and it should review whether:

- The system of assurance is appropriate for the organisation;
- Processes to seek and provide assurance are robust and relevant;
- The controls in place are sound and complete;
- Assurances are reliable and of good quality; and
- Assurances are based on reliable, accurate and timely information and data.

The Committee is a key source of assurance to the Board ensuring that the organisation has effective controls in place to manage the significant risks to achieving its objectives and that controls are operating effectively. The Committee's principle duties have constantly included "reviewing the establishment and maintenance of an effective system of good governance, risk management and internal control across the whole of the organisation's activities, both clinical and non-clinical". Integral to this is the Committee's focus on seeking assurance that effective systems are in place to manage risk, that the organisation has an effective framework of internal control to address principal risks and that the effectiveness of the framework is regularly reviewed.

- 2.2 During the year the Committee has supported the Board by seeking and providing assurance that controls are in place and are working as designed and

by challenging poor sources of assurance. The Committee therefore has a relatively broad role encompassing scrutiny of, and comment upon, the adequacy and effectiveness of the UHB's overall governance, risk management and internal control, covering both clinical and non-clinical areas. This also includes reviewing the Accountability Report before it is submitted to the Board for approval.

2.3 The Committee discharges this duty by fulfilling its responsibilities as outlined in its Terms of Reference. In performing its duties the Committee works to an approved work plan, based on scheduled agenda topics together with a range of specific issues which are subject to review. It is supported by the activities of Wales Audit Office as the External Auditor; NHS Wales Shared Services Partnership (NWSSP): Audit and Assurance – Internal Audit and Specialist Services Unit, and Local Counter Fraud Specialists.

2.4 In discharging these responsibilities, the Committee is required to review:

- Internal financial control matters, such as safeguarding of assets, the maintenance of proper accounting records and the reliability of financial information;
- Adequacy of disclosure statements, (Annual Governance Statement, Accountability Report, Annual Quality Statement, Annual Report) which are supported by the Head of Internal Audit opinion, the Wales Audit Office Annual Audit Report and other opinions;
- The adequacy of relevant policies, legality issues and the Codes of Conduct;
- The policies and procedures relating to fraud and corruption;
- That the system for risk management is robust in identifying and mitigating risks, enabling the Audit and Risk Assurance Committee to provide the Board with assurance that the risks impacting on the delivery of the UHB's objectives are being appropriately managed.

2.5 Emanating from the above scrutiny, a number of outcomes from the work of the Committee during the year have resulted in escalation of certain matters to the Board. These have included:

- Compliance with agreed timescales in response to recommendations from external organisations resulting in a formalised escalation process and concern regarding the standard of audit management responses;
- Concerns around Consultant and Specialty and Associate Specialist (SAS) job planning compliance;
- Continued concern in relation to the governance regarding private practice;
- Concerns regarding the potential resource impacts (both financial and staff) on Hywel Dda's Public Health Wales resources arising from the Wales Audit Office (WAO) report on Collaborative Arrangements for Managing Local Public Health Resources;
- Continuing concerns regarding the findings of the Physical Verification of Fixed Assets & Personally Identifiable Information (PII) Internal Audit report and the steps being taken to address these;

- Continued concerns regarding the current Single Tender Actions process, in terms of lack of compliance with proper procedures and failure to conduct tender processes when possible;
- Concerns with regard to the Theatres Directorate Internal Audit report, specifically the extended period of time between completion of fieldwork and publication of the final report with recommendations, and the findings around payroll and on-call arrangements;
- In recognition of the significant work undertaken to achieve a Reasonable Assurance rating on the Fire Precautions Follow-up audit, consideration of the requirement for additional investment in this area to maintain and improve compliance;
- Continued concerns regarding clinical audit and governance regarding non-participation, with it noted that this is an area where decisions would be raised to Board level;
- Concerns regarding a lack of patient feedback and patient experience strategy, both specifically in terms of hospital catering & patient nutrition, and that more generally, a clear timeline should be agreed for progress;
- Concerns due to the seriousness of both WAO & Internal Audit reports regarding operating theatres that highlighted significant issues;
- Concerns regarding delays in implementing the RADIS radiology IT system due to losing the slot for implementation;
- Disquiet regarding delays in payments to suppliers, particularly in the case of smaller companies where this can result in a significant impact;
- The need for the UHB to strengthen its governance and reporting around maternity services, due to the inherent risks and potential cost, both in human terms and in clinical negligence claims;
- Concerns regarding the lack of assurance provided by management responses to the Internal Audit reports on the Procurement and Disposal of IT Assets and the IM&T Directorate;
- The need for a cultural shift in terms of the way in which the organisation approaches concerns and complaints, and to ensure a continuous improvement programme is established for learning from events/timeliness of responses;
- The Committee's rejection of management responses to Internal Audit Reports on the Radiology Directorate and Glangwili Hospital's Women & Children's Development Phase 2, due to a lack of assurance;
- Concern regarding the pace of progress against the WAO Consultant Contract report on consultant job plans;
- Concerns around adherence to the Internal Audit Charter, resulting in new escalation protocols, timescales, processes and rules;
- Concerns regarding issues relating to Radiology, particularly on-call working practices and payments;
- Concerns around the reduction in Public Health resources proposed in the Public Health Wales Review Closure Report;
- Risks in dealing with private sector companies for capital projects;
- Concerns regarding the UHB's financial position, and the risks to delivery of the planned deficit position;

- Concerns regarding ongoing Welsh Government questions relating to the organisation's underlying deficit, and suggestions that the reasons for this are not sufficiently understood;
- Concerns regarding European Working Time Directive (EWTD) non-compliance amongst switchboard lone-workers, identified within the IM&T Directorate report;
- Concerns regarding the findings of the Records Management report, particularly a lack of progress and a need for ownership and leadership in this area;
- Continued concerns regarding the implications of HMRC requirements in relation to the GP Out of Hours service and the process to be employed in this regard;
- Concerns regarding the Water Safety and the National Standards for Cleaning Internal Audit reviews, both awarded Limited Assurance ratings.

2.6 Throughout the course of the year the Audit and Risk Assurance Committee has also made recommendations/undertaken the following actions which have in turn led to improvements in the UHB's governance and assurance systems:

- Recommendation by the Committee of the Hywel Dda University Health Board's Annual Report 2017/18 to the Board for approval;
- Revisions made to the Internal Audit Charter, including new escalation protocols, timescales, processes and rules;
- Development of the new Audit Tracker holding to account process;
- Recommendation by the Committee of the Scheme of Delegation & Reservation of Powers to the Board for approval;
- Monitoring of the Joint Escalation & Intervention Arrangements;
- Recommendation by the Committee of the Audit & Risk Assurance Committee's revised Terms of Reference for ratification by the Board.

2.7 In enacting its responsibilities, the Audit and Risk Assurance Committee is very clear on its role in seeking assurances, with the assurance function being defined as:

- Reviewing reliable sources of assurance and being satisfied with the course of action;
- An evaluated opinion, based on evidence gained from review – tends to be based on independent validation, both internal and external.

3 Committee Structure and Meetings

3.1 A key element of the Committee is that it solely comprises of Independent Members, providing a basis for it to operate independently of any decision making process and to apply an objective approach in the conduct of its business.

3.2 As a result of turnover of Independent Members and, in accordance with good governance practice regarding rotation of Committee membership, a number of changes had already occurred during the previous financial year. The

membership of the Committee has, therefore, remained largely unchanged during 2018/19, providing stability and expertise and was as follows:

Paul Newman, Independent Member – Community, Chair (Interim Vice Chair UHB from 06/03/19)*;

Mike Lewis, Independent Member – Finance (Vice Chair);

David Powell, Independent Member – Information Technology;

Cllr. Simon Hancock, Independent Member – Local Authority;

Owen Burt, Independent Member – Third Sector,

Judith Hardisty, Independent Member (Vice Chair UHB – 01/03/19; ARAC membership ended due to becoming the Interim Chair, UHB)

(*It should be noted that the UHB is aware of the guidance contained within the NHS Wales Audit Committee handbook in respect of section 5.2 where it is considered best practice that an organisation's Vice Chair does not chair the Audit Committee. The UHB has considered the balance of risk and believes as this is an interim appointment for a limited period of time, the greater risk would be to appoint an Interim Audit Committee Chair during the year end reporting period. This approach has been agreed with the Minister for Health and Social Services).

During the financial year 2018/19, 8 scheduled meetings of the Audit and Risk Assurance Committee were convened. A high level of commitment from Committee Members has been demonstrated throughout the year, as recorded in the attendance of meetings held.

Although invited to attend certain meetings to provide assurances and explanations to the Committee on specific issues, neither the Chair, Chief Executive Officer, nor any other Executive Director of the UHB, are members of the Committee. In particular, the Chief Executive Officer is invited annually to present the Accountability Report and, during the year, to discuss the UHB's arrangements further to its continued escalation at Targeted Intervention status.

Having a key role to play in establishing and maintaining a sound system of internal financial control, the Director of Finance (and/or the Assistant Director of Financial Planning, being a designated deputy) has been in attendance at all meetings. The Committee has also been supported on key matters at all meetings from attendance by the Board Secretary who is the Lead Officer for the Committee and has been present at all meetings.

The Committee also has regular attendance from representatives of:

- The Auditor General/Wales Audit Office;
- NWSSP Audit and Assurance Services (Internal Audit and Specialised Services Unit);
- NHS Counter Fraud Services.

4 Committee Work Programme 2018/19

4.1 The Committee reviewed and approved the audit strategies and plans for the auditors as listed below, and received audit reports produced in support of them during 2018/19:

- External Auditors, Wales Audit Office;
- NWSSP Audit and Assurance Services:
 - Internal Auditors;
 - Specialised Services Unit.

4.2 Acting upon the outcomes of effectiveness reviews is as important as undertaking them and it is essential that outcomes and associated actions are reported appropriately. Where reports received a less than Reasonable Assurance audit rating, or where there are specific areas of concern, the appropriate Executive Directors and lead officers were requested to attend Committee meetings. This process provided opportunities to discuss the reports more fully, and for the Committee to satisfy itself that the findings raised in the reports were being addressed, with recommendations implemented to address control weaknesses or compliance issues.

4.3 The Audit and Risk Assurance Committee continues to receive progress updates directly as and when requested, including any reports relating to clinical governance issues, having previously been referred for further consideration to the Quality, Safety and Experience Assurance Committee. Other specific reports, e.g. those relating to Estates, Capital Projects and Information Governance issues were also referred to the Business Planning and Performance Assurance Committee, for regular management until all issues were resolved. In addition, each of the Board Committee Lead Executives are requested to attend the Audit and Risk Assurance Committee on a cyclical basis, at least annually, to provide assurance that the Committee is fully discharging its duty and complying with the requirements of its Terms of Reference.

4.4 The Audit and Risk Assurance Committee is responsible for overseeing risk management processes across the organisation and has a particular focus on seeking assurance that effective systems are in place to manage risk, and that the UHB has an effective framework of internal controls that addresses principal risks. Effective risk management requires a reporting and review structure to ensure that risks are effectively identified and assessed and that appropriate controls are in place. The Committee is responsible for monitoring the assurance environment and challenging the build-up of assurance on the management of key risks across the year, ensuring that the Internal Audit Plan is based on providing assurance that controls are in place and can be relied on, and reviewing the internal audit plan in year as the risk profiles change.

5 External Audit – Wales Audit Office (WAO)

5.1 External Audit is provided by the Wales Audit Office (WAO) with its work divided into the two broad headings of:

- Audit of the financial statements and to provide an opinion thereon;

- Forming an assessment of the UHB's use of resources and performance work.

5.2 The Committee approved the External Audit Outline 2018, ensuring that it was linked to strategic priorities and the financial and operational risks facing the organisation, with progress reports against delivery being received at each meeting. The Committee also received individual performance audit reviews. Where necessary, additional assurances were sought from appropriate Executive Directors and other senior managers to confirm that recommendations made in such reviews were being addressed accordingly.

5.3 It is pleasing for the Audit and Risk Assurance Committee to note that WAO recognise that the Committee functions generally well, and that it is chaired effectively. It was confirmed by WAO that the UHB has robust arrangements in place to keep track of recommendations, not only of those identified by External and Internal Audit but those made by all external review bodies. This has been identified by WAO as good practice. The audit tracker has been regularly reported to this Committee and following the introduction of an escalation process, Executive Directors and officers have been held to account for the pace of delivery, with detailed progress updates having been received at regular intervals. The Audit and Risk Assurance Committee will continue to monitor the UHB's Audit Tracker scrutinising management responses to external audit reports through 2019/20.

5.4 With reference to the performance audit work undertaken in 2018/19, WAO concluded that:

- District Nursing: Although the UHB is awaiting national guidance before it can fully address certain issues, a clear service specification has been written for its district nursing service. The UHB also has a greater understanding of demand, deployment and performance.
- Review of Operating Theatres: The report concluded that management arrangements are stronger and the UHB has made some progress in monitoring staffing levels and skill mix. However, as the theatres IT systems are inadequate, it is challenging to get useful activity and performance data.
- Maternity Services: The overall conclusion was that the UHB now has strong leadership in its maternity services and has substantially addressed the operational & strategic challenges posed by the service. However, Caesarean Section rates remain high.
- Review of Primary Care Services: The overall conclusion was that the UHB has ambitious plans for Primary Care and is taking steps towards implementing key aspects of the national vision. However, financial pressures are making it difficult to redirect funds to primary care, workforce challenges are threatening the sustainability of services and performance levels are generally worse than the rest of Wales.
- Clinical Coding Follow Up Review: WAO concluded that coding continues to be a low priority for the UHB and non-compliance with the completeness target is impacting on overall improvement in accuracy and staff morale. The use of coding data as business intelligence remains underdeveloped and there is still considerable room for progress against previous recommendations.

- Hospital Catering & Patient Nutrition Follow-up Review: The Committee noted that substantial work has taken place in an attempt to address recommendations made by both WAO & Healthcare Inspectorate Wales (HIW), with two WAO recommendations remaining outstanding. The Audit and Risk Assurance Committee expressed concerns, however, regarding the lack of a patient experience strategy which could capture high levels of patient feedback on a habitual basis regarding patient nutrition & hydration.
- Public Health Wales Review Report: Concerns were expressed about the financial resource the UHB will lose which is deemed as being counter-intuitive at a time when the profile of health promotion and illness prevention is being raised. There was also dissatisfaction around the method used for calculating the UHB's allocation of resources, with the Committee agreeing that the Director of Finance and Director of Public Health would write expressing concern regarding this.
- WAO National Review of Primary Care: In terms of the overall report, which was welcomed as particularly timely in view of the newly agreed Health & Care Strategy '*A Healthier Mid and West Wales*', it was felt that the UHB is generally in a good place with regards to Primary Care. It was agreed that there will be a further review by the Audit and Risk Assurance Committee to update on progress, improvements and share experiences, timed to coincide with the national WAO Primary Care report being published in April 2019.
- It was also pleasing for the Committee to note WAO's comment that the UHB has made good progress in addressing recommendations from previous audit work, although a number remain outstanding with certain of these being reliant on national guidance and improvements in IT systems.

5.5 The Committee received the WAO Annual Audit Report 2018, which concluded that the Auditor General for Wales had issued an unqualified opinion on the accuracy and proper preparation of the UHB's 2017/18 financial statements. However, a qualified audit opinion was issued on the regularity of the financial transactions within the UHB's 2017/18 accounts as it did not achieve financial balance for the three year period ending 31st March 2018. The Auditor General, alongside his audit opinion, placed a substantive report on the UHB's financial statements to highlight its failure to achieve financial balance and its failure to have an approved three-year plan in place. The Audit and Risk Assurance Committee however, had consistently highlighted concerns regarding the significant financial challenge faced by the UHB in 2017/18 and beyond, and has continued to seek assurance regarding the financial controls and any financial movements. The work undertaken by WAO in the Structured Assessment of the UHB, which examined the arrangements to support good governance, effective quality assurance and the efficient, effective and economical use of resources, also contributed to the Annual Report. Having discussed the report in depth, the Committee concurred that it presented a fair and balanced view of the organisation and recommended it to the Board.

6 NWSSP - Internal Audit

6.1 At the direction of the Minister for Health and Social Services, Internal Audit is provided by the NHS Wales Shared Services Partnership (NWSSP). The service

provision is in accordance with a Service Level Agreement agreed by the Shared Services Partnership Committee, on which the UHB has permanent membership.

6.2 Internal Audit provides an independent and objective opinion to the Accountable Officer, the Board and the Audit and Risk Assurance Committee, on the degree to which risk management, control and governance support the achievement of the organisations agreed objectives. The Committee reviewed and approved the content of the Internal Audit plan based on the UHB’s risk profile and its detailed programme of work for 2018/19. During the year, this plan was flexed and adapted as necessary in order to respond to key risks.

6.3 During the year, the Audit and Risk Assurance Committee also reviewed and approved a revised Internal Audit Charter. The Charter sets out the responsibilities of Internal Audit to the UHB, and vice versa, including the requirement for the UHB to respond to Internal Audit reports and recommendations in a timely manner, accompanied with an escalation policy. Whilst in the main, the escalation policy had been operating effectively, since 2017/18 there have been several instances where reports breached the time limits, causing delays to reports being submitted to the Committee. The revised Internal Audit Charter has been strengthened to ensure management responses are of a high standard, with specific timescales ensuring escalation at an earlier stage, thereby reducing the time that reports take to be finalised and presented to the Committee.

6.4 The Committee has received progress reports against delivery of the plan at each meeting, with individual assignment reports also being received. The outcome of each audit, providing an overall conclusion on the adequacy and application on internal controls for each area under review, was considered by the Committee. The assessment on adequacy and application of internal control measures can range from “No Assurance” through to “Substantial Assurance”.

6.5 The table below summarises the UHB’s Internal Audit report ratings for 2018/19, compared to the previous year.

Table 1

Internal Audit Assurance Rating	2018/19		2017/18	
	No	%	No	%
Substantial	7	20	8	29
Reasonable	20	59	14	50
Limited	4	12	4	14
None	0	0	0	0
Rating Not Applicable	3	9	2	7
Total	34	100	28	100

79% of the Internal Audit reports achieved a rating of substantial or reasonable assurance with 12% of the reports receiving a limited assurance rating. *8 IA reports to be finalised by year end.*

7 NWSSP – Specialised Services Unit (Capital Audit and PFI)

7.1 The role of Capital and PFI Audit Services is to provide an objective assessment on whether the UHB’s systems and controls for Capital and Estates projects are working effectively. During 2018/19, the Audit and Risk Assurance Committee has continued to work effectively with the Audit Team to further strengthen the UHB’s internal control processes surrounding capital projects and estates assurance.

7.2 The Committee approved a risk based Capital and PFI 2018/19 Annual Audit Plan. Consideration has been given to the audit opinion awarded to each assignment that has been reported to the Committee throughout the year. Where limited assurances have been reported, further scrutiny or review of the actions recommended has been activated, with Executive Directors or other officers held to account as appropriate. If deemed necessary, representation at Committee meetings has been forthcoming in order to confirm that issues are being addressed in order to achieve an adequate level of assurance.


Table 2

Capital and PFI Audit Assurance Rating	2018/19	
	No.	%
Substantial	1	10
Reasonable	6	60
Limited	1	10
No Assurance	0	0
Rating Not Applicable	2	20
Total	10	100

Similarly for Capital and PFI it should be noted that 70% of the audit reports achieved a rating of substantial or reasonable assurance, with 10% of reports in receipt of limited assurance with a further 20% where a rating was not applicable.

8 Head of Internal Audit Opinion

8.1 The Head of Internal Audit provided the Opinion Report for 2018/19 to the Committee at its meeting on 29th May 2019. In the report, the Head of Internal Audit concluded:

Reasonable assurance	 <p>- + Yellow</p>	<p>The Board can take reasonable assurance that arrangements to secure governance, risk management and internal control, within those areas under review, are suitably designed and applied effectively. Some matters require management attention in control design or compliance with low to moderate impact on residual risk exposure until resolved.</p>
-----------------------------	---	--

The revised All Wales Framework for expressing the overall audit opinion identifies that there are eight assurance domains, all of equal standing. The rating of each assurance domain is based on the audit work performed in that area and takes account of the relative significance of the issues identified.

In reaching this opinion, the Head of Internal Audit has identified that the Board can take reasonable assurance that arrangements to secure governance, risk management and internal control, within those areas under review, are suitably designed and applied effectively. Some matters require management attention in control design or compliance, with low to moderate impact on residual risk exposure until resolved.

In reaching this opinion the Head of Internal Audit has considered all the domains, with these being rated for assurance as follows:

Domain	Assurance
Corporate governance, risk and regulatory compliance	Substantial
Strategic planning, performance management and reporting	Reasonable
Financial governance and management	Reasonable
Clinical governance, quality and safety	Reasonable
Information governance and IT security	Reasonable
Operational service and functional management	Reasonable
Workforce management	Limited
Capital and estates management	Reasonable

Thus, overall, a Reasonable Assurance rating is given to the UHB. Internal Audit is aware of the plans and actions put in place by the UHB in response to their recommendations, and will follow these up in the 2019/20 year to ensure they have been enacted.

The work of the Internal Audit service is informed by an analysis of the risks to which the UHB is exposed with an annual plan based on this analysis. It should be recognised that many of the reviews were directed at high risk areas, and the overarching opinion therefore needs to be read within this context.

8.2 The Audit and Risk Assurance Committee is of the opinion that selecting Internal Audit Reviews based on risk as opposed to selecting areas that may consistently have had a higher internal audit rating is a far more rigorous process of assurance. On that basis, the Audit and Risk Assurance Committee believes that the overall Head of Internal Audit (HoIA) Opinion of 'reasonable assurance' for the year is a positive outcome and reflects the Internal Audit risk based programme.

8.3 This Opinion contributed to the Board's assessment of the effectiveness of the organisation's system of internal control and to the completion of the Annual Governance Statement. The basis for forming the opinion can therefore be summarised as follows:

- An assessment of the range of individual opinions arising from risk-based audit assignments contained within both the Internal Audit and Specialist Services Unit risk-based plans that have been reported to the Audit and Risk Assurance Committee throughout the year. This assessment has taken account of the relative materiality of these areas and management's progress in respect of addressing control weaknesses;
- The review of the process for self-assessment of Health and Care Standards for Health Services in Wales. Evidence is available in support of the Board's declaration in respect of the assessment for the Governance, Leadership and Accountability Standard;
- Other assurance reviews including audit work performed in relation to systems operated by the NHS Wales Shared Services Partnership.

8.4 The Head of Internal Audit stood down at the end of December 2018, and through early discussion with NHS Wales Shared Services Partnership, a seamless handover was achieved with the current postholder.

9 Counter Fraud

9.1 During the year, the Audit and Risk Assurance Committee was consulted on the All Wales Counter Fraud Policy which is required to demonstrate compliance with the Welsh Assembly Government Directions 2006 in Countering Fraud in the NHS. This policy provides clear guidance for staff considering reporting concerns of fraud, bribery and corruption which may have been perpetrated against the interests of the UHB, and is accompanied by the response plan for action where suspicious activity is suspected or detected and/or may be reported. The UHB must effectively seek to promote the counter fraud agenda and ensure that the appropriate action is taken when an allegation of fraud is received. The role of the Audit and Risk Assurance Committee is to ensure the promotion and implementation of the policy, with compliance monitored by the Committee through the reports of counter fraud activity received and the Annual Counter Fraud Work Plan.

9.2 The Committee received the 2018/19 Annual Work Plan of the Local Counter Fraud Officer, ensuring that it had an appropriate level of coverage, and received regular reports to monitor progress against the plan. These reports provided an overview of current cases, details of concluded fraud investigations, policy and procedure reviews, actions being taken to deter and prevent fraud and to raise fraud awareness throughout the UHB. The Counter Fraud Service is taking various approaches to achieve this, including the use of tools such as the new Twitter account.

9.3 The Counter Fraud Annual Report 2018/19 concluded that the UHB's counter fraud provision had demonstrated compliance with the requirements of the Welsh Government's Directions 2006. The Committee was assured that liaison has continued between the Local Counter Fraud Officer and Internal Auditors and other relevant parties where appropriate. In addition to the service provided from the Local Counter Fraud Specialist, the UHB is fortunate to have access to a large skill set of counter fraud specialists who work across Wales.

- 9.4 In addition to the above, during the year the UHB's counter fraud arrangements were subject to a "Focused Quality Assessment of Compliance against NHS Counter Fraud Authority Standards for NHS Bodies 2018/19 (Wales). It is pleasing to note that positive feedback was provided by the assessor, with no concerns regarding the counter fraud provision in the UHB. The organisation is performing well with real improvement having been achieved within limited time, whilst further development areas were also highlighted to the Committee.
- 9.5 The Local Counter Fraud Officer has been in regular attendance at Audit and Risk Assurance Committee meetings, and issues have been discussed in greater detail, if appropriate, with Committee members.

10 Financial Reporting and Financial Position

- 10.1 The Audit and Risk Assurance Committee considered the Annual Accounts for 2018/19 in May 2018, including the organisation's Annual Governance Statement and Accountability Report, with a subsequent recommendation made to the Board for approval. In making its recommendation, the Committee confirmed that the draft Accountability Report was consistent with the Committee's view on the UHB's system of internal control.

At the end of the previous financial year, following the establishment of the new Finance Sub-Committee, regular Financial Assurance Reports have been presented to the Audit and Risk Assurance Committee. This is consistent with the Committee's role of maintaining an appropriate financial focus by demonstrating robust financial reporting and that the maintenance of sound systems of financial control are enacted. Matters discussed by this Committee during the year and on which assurances were provided included the number of 'No PO, No Pay' breaches and compliance with HMRC employment tax regulations.

- 10.2 Whilst the Audit and Risk Assurance Committee was assured that the financial reporting and financial controls were robust, the Committee regularly escalated its concerns regarding the UHB's financial position to the Board. Concerns were also escalated around ongoing questions from Welsh Government regarding the organisation's underlying deficit and suggestions that the reasons for this are not sufficiently understood.
- 10.3 Following the welcome elevation of the Finance Sub-Committee to a Board level Committee in September 2018, the Audit and Risk Assurance Committee will seek an assurance, through the Finance Committee's increased scrutiny, on the UHB's financial position, underlying deficit and savings plans.

11 Standing Orders, Standing Financial Instructions and Financial Procedures

11.1 The UHB's Standing Orders, supporting Schedules and Standing Financial Instructions were reviewed and considered by the Audit and Risk Assurance Committee and recommended for Board approval.

12 Losses and Special Payments

12.1 If necessary, to comply with Standing Orders and Standing Financial Instructions, the Committee receives losses and special payments reports for consideration and where appropriate, recommends them to the Board for approval. A report of the write off of bad debts for 2018/19 is to be considered by the Audit and Risk Assurance Committee at its May 2019 meeting.

13 Assurance on Clinical Governance

13.1 It is a requirement of the NHS Wales Audit Committee Handbook that the Audit and Risk Assurance Committee reviews the clinical audit programme at the beginning of each year. As previously, it continues to be recognised that the Committee needs to strengthen its arrangements for receiving assurances on clinical audit.

13.2 The Committee was presented with the current 2018/19 Clinical Audit Programme and provided with details on how this was being developed at the beginning of the year. The Clinical Audit Department compiled a UHB-wide forward programme for 2018/19 by asking groups/sub-committees within the existing governance framework to submit a list of audits that they supported being undertaken in 2018/19. The programme was approved by the Effective Clinical Practice Sub-Committee, subject to a few conditions which focused on improving the rationale for project inclusions, and creating better links to NICE guidance and UHB policies. The Audit and Risk Assurance Committee was advised that all projects on the programme will proceed through additional layers of scrutiny via the Clinical Audit Department and Locality Clinical Audit Support Committees (CASC) to ensure that they meet the criteria for inclusion on the programme. The Clinical Audit Department will also take into consideration high priority or risk associated audits which are identified throughout the year.

The Audit and Risk Assurance Committee was assured that with regard to Mandatory National Audit Compliance, the decision was taken not to develop a system whereby services can 'opt out' of participation in a mandatory clinical audit. The assumption that all of these projects will be participated in is still the view of this UHB and Welsh Government. To this end, any service that is not able to participate fully in a mandatory audit will instead be required to risk assess the impact of this, utilising existing risk management procedures. The governance regarding non-participation was highlighted, with it being noted that this is an area in which decisions would be raised to Board level.

The Clinical Audit Department has been seeking to improve on the robustness of the above process with an aim to increasing both the quality of action plans and

the level of assurance that they can provide. The Quality, Safety and Experience Assurance Committee continues with its remit of seeking more detail on the clinical outcomes and improvements made as a result of clinical audit.

The Audit and Risk Assurance Committee requested that an annual report, to include audit compliance/participation rates, issues/challenges and outcomes, be prepared. The Committee also requested a sample of outcomes and improved clinical practice as a result of national clinical audits be undertaken with particular reference being made to the impact on culture, lessons learnt and benchmarking information.

14. Other Committee Work

14.1 Targeted Intervention Arrangements

The tri-partite arrangements involve information sharing and dialogue between the Welsh Government, the Auditor General for Wales and HIW. Under these arrangements, twice-yearly meetings are held to discuss the overall position of the UHB (as with all other Health Boards and Trusts in Wales), and to agree on the best way to respond to any issues affecting service delivery, quality and safety of care and/or organisational effectiveness.

The UHB's position has remained as that of 'targeted intervention' status during the year, primarily as a result of the underlying financial position and performance challenges that the UHB faces. The Committee has closely monitored the enhanced escalation status of the UHB during the year with the Joint Escalation & Intervention Arrangements being a standing agenda item for its meetings, with the Chief Executive requested to provide an update on the position on a regular basis.

Although the organisation remains at this targeted intervention level there is positive recognition of the UHB's improved performance and Welsh Government was pleased that the UHB remains confident of delivering the control total of £35.5m at the end of 2018-19. However, Welsh Government remains concerned that the UHB does not fully understand the reasons behind the underlying financial deficit. Whilst Welsh Government has remained positive regarding performance and the organisation's commitment on progressing the Transforming Clinical Services Programme, which is recognised as moving towards the delivery phase, they are less assured around the UHB's financial position and that finance remains challenged in terms of the outlook for 2019/20.

Welsh Government has emphasised the importance of the UHB having a sound financial plan for 2019/20 and have expressed concern regarding the current plan having a high level of cost growth, with only £10m of firm savings identified against a £27m savings requirement. The main reasons identified which need resolving before an annual plan can be considered for approval are: the requirement for meeting national performance targets to be a core part of the plan, confirmation of the forecast deficit for year end 2019/20 and actions for meeting delivery of that position, including the costs of meeting all performance targets and the need for full alignment of performance and finance.

The Committee has welcomed the strong engagement with Welsh Government recognising the incremental gains and challenges ahead.

14.2 Reports of Other Committees

Lead Executive Directors of the Board level Committees attend the Audit and Risk Assurance Committee on an annual basis to allow the Committee the opportunity to scrutinise the controls and assurances on which it relies, agreeing actions where appropriate, including proposals for future internal audits.

Assurance reports from the following Committees were received which provided assurances that the Committee's Terms of Reference, as set by the Board, are being adequately discharged:

- University Partnership Board (UPB);
- Primary Care Applications Committee (PCAC);
- Business Planning & Performance Assurance Committee (BPPAC);
- Quality Safety & Experience Assurance Committee (QSEAC);
- Mental Health Legislation Assurance Committee (MHLAC);
- Finance Committee (FC);
- Charitable Funds Committee (CFC)

Whilst it is recognised that Committees are discharging their Terms of Reference adequately, there are still improvements to be made to strengthen the assurance and risk focus of the Sub-Committees. It was highlighted in particular that QSEAC has been on a development journey, with this work continuing.

14.3 Adequacy of Arrangements for Declaring, Registering and Handling Interests Gifts, Hospitality, Honoraria and Sponsorship

In accordance with the Audit Committee Handbook, the Committee reviewed the adequacy of arrangements for declaring, registering and handling gifts, hospitality, honoraria and sponsorship currently being enacted, and noted the proposed steps to improve the adequacy of these arrangements during 2019/20. This included the introduction of bespoke links between the on line reporting system introduced in October 2018 and the UHBs Electronic Staff Record, with a view to substantially increasing the numbers of declarations made.

14.4 Single Tender Action and Quotation Reports

In line with Standing Orders, and in the interest of probity and transparency, the Committee received reports relating to all Single Tender Actions during the course of the year. This was supported at year end by a schedule of all such transactions during the course of the year being presented to the Committee in order to obtain assurance that there were no consistent or recurring themes which might indicate any attempt to circumvent due process, thereby enabling any trends or other issues of concern to be monitored and acted upon.

No such trends were identified during the year. Whilst concern was expressed at the beginning of the year regarding the continuing trend of increasing volume and value of Single Tender Actions being received by the Committee, the most recent internal audit report indicates a reduction in both. The Audit and Risk Assurance Committee was informed that this was partly due to a more robust process being in place and that a substantial number of these were for maintenance contracts. The Committee received assurances that where there have been queries regarding particular Single Tender Actions, these have been referred back to lead officers.

14.5 Audit and Risk Assurance Committee Development and Self Assessment of Effectiveness

Members participated in a self-assessment and evaluation exercise of the Audit and Risk Assurance Committee's performance and operation towards the end of the year. The main conclusion drawn was that the Audit and Risk Assurance Committee is operating in accordance with its terms of reference. Positive responses were received in relation to the role and purpose of the Committee and support for the Committee. No major shortcomings in the past year were identified. The findings of the self-assessment exercise will be considered by the Chair and Independent Members to design a development programme for 2019/20.

Members also participated in a Board Seminar session on Risk Management and the role of the Audit and Risk Assurance Committee in this process in August 2018.

14.6 Private Meeting of Audit and Risk Assurance Committee Members with the Auditors

In line with the Audit Committee Handbook and the Audit and Risk Assurance Committee Terms of Reference, Committee Members met privately with Internal Audit Service, the Specialised Services Unit, Wales Audit Office and Counter Fraud during the year, as shown in the table below.

ARAC Meeting Date	Topic/Subject Covered	Attended by
19 th February 2019	Independent Members met Counter Fraud, Internal Audit and Wales Audit Office without UHB officers present	Matthew Evans, Counter Fraud Officer Simon Cookson, Director of Audit and Assurance, and James John, Head of Internal Audit (NWSSP) Ann-Marie Harkin, Anne Beegan and Jeremy Saunders, Wales Audit Office

15. Forward Plan

A number of areas for further development were identified in last year's report in order that the Audit and Risk Assurance Committee could provide additional assurance that the Board is functioning effectively. It has been a positive year with significant improvements made.

The Committee will require that these areas will continue to be subject to increased scrutiny, not least the organisation's financial challenge which remains a serious concern, which will be scrutinised through the UHB's Finance Committee. As has been constantly reported in previous years with increased focus continuing this last year, it is clear that the financial position will continue to be a significant challenge in 2019/20. Work will therefore be undertaken through the Finance Committee to ensure the Health Board is in a position to understand fully the underlying deficit and to provide an assurance on this to the Audit and Risk Assurance Committee.

Assurances will also be sought by the Committee that the recommendations from the 2018 WAO Structured Assessment Report have been implemented. The UHB's process for tracking recommendations by all regulators has been particularly recognised by WAO as good practice and a welcome addition to the process of holding to account those charged with addressing these recommendations.

Any areas of Committee concern raised during 2018/19, including clinical audit, radiology, theatres, estates, private patients will be followed up in 2019/20. Learning will also be taken from the 2018/19 Self Assessment of Committee Effectiveness exercise with the key themes thus far identifying enforcement of the revised Internal Audit Charter to improve the quality of management responses to audit recommendations and holding to account on those that have passed their deadline. There will also be a focus on members' further understanding of risk to provide an assurance on the effectiveness of the risk management framework, together with a focus on a more general level of members understanding supported by the localised Committee Handbook designed to strengthen induction and members' on-going development.

The Board at its March 2019 meeting approved the 2019/20 Annual Plan for submission to the Welsh Government as an interim draft plan reflecting the fact that it does not satisfy the UHB's statutory duty for financial break even.

In order to continue with triangulation of assurance for the Board, together with providing the required degree of scrutiny, it is Audit and Risk Assurance Committee's intention to further build relationships with the Quality, Safety and Experience Assurance Committee, the Business Planning and Performance Assurance Committee and the Finance Committee.

16. Conclusions

It is acknowledged that the Audit and Risk Assurance Committee is a well-established Committee of the Board with a detailed annual work plan in place.

Whilst the Committee believes it has met the duties of its Terms of Reference and has provided assurance to the Board on a significant number of matters, during the course of the year there were several areas where the Committee itself expressed concern that it was not being provided with the required degree of assurance enabling it to discharge its duties in informing the Board appropriately.

The Internal Audit work programme has been aligned to the UHB's risk profile in order to provide assurance to the Audit and Risk Assurance Committee that the identified mitigation is reducing or maintaining the level of identified risk. The Audit and Risk Assurance Committee will also ensure that Internal Audit reviews are undertaken of those areas which received limited assurance during 2018/19 in the early part of the current year, and the implementation of the agreed management action plans will be a focus for the Committee's attention. The plan will be flexible in order to test the assurance flows which are an integral part of the Board Assurance Framework.

The Audit and Risk Assurance Committee will also continue to request the attendance of the Chief Executive Officer on a regular basis to provide assurance that the position relating to the UHB's targeted intervention status is being carefully managed and that no further escalation would be forthcoming.

Finally, focus will continue to be placed on work that is undertaken in collaboration and partnership, with the Audit and Risk Assurance Committee seeking the assurance that robust processes and reporting arrangements are in place where significant activity is shared with another organisation, e.g. NHS Wales Shared Services Partnership (NWSSP), Emergency Ambulance Services Committee (EASC), Welsh Health Specialised Services Committee (WHSSC), Collaboratives.

The Committee is well attended by both members and those in attendance, with a focus on the critical risks facing the UHB creating a balanced discussion between financial and non-financial/clinical risks. During the year, the Committee has received development/training sessions on specific areas such as internal audit assurance ratings, enabling Members to obtain a better understanding and thereby improving the effectiveness of the scrutiny provided.

The Committee is therefore a key source of assurance to the Board that the organisation has effective controls in place to manage the significant risks to achieving its strategic objectives and that controls are operating effectively. In a period of rapid change where far-reaching decisions have to be made, it is vital that risk management is at the heart of this process. The Committee has continued to make progress in moving to a position where it can be used effectively to help achieve the UHB's objectives and improve decision making. Work will take place during 2019/20 to enable the Committee to receive

assurance on the effectiveness of the risk management framework. By monitoring the performance of risk management and any obstacles to improvement, the Audit and Risk Assurance Committee has helped to ensure the adoption of good practice across the organisation.

This report demonstrates that the Committee has fulfilled its responsibilities as detailed in its Terms of Reference, through the completion of a comprehensive work plan, and from the reports it has received throughout the course of the year from a range of support services and sources. The Audit and Risk Assurance Committee has successfully overseen a programme of work to provide the Board with assurance in respect of the adequacy and effectiveness of the organisation's functions and systems to maintain a sound system of governance and internal control.

It is the opinion of the Audit and Risk Assurance Committee that the Accountability Report incorporating the Annual Governance Statement, is consistent with the view of the Committee on the UHB's system of internal control. In forming this opinion the following factors have been considered:

- The system of risk management is adequate in identifying risks and allowing the Board to understand the appropriate management of those risks, whilst noting work is continuing in refining risks to be undertaken at an operational level to enable the UHB to become a risk mature organisation;
- The reliability and integrity of its sources of assurance encompassing the work of both Internal and External Audit together with the assurances forthcoming from the Sub-Committees of the Board;
- The Committee, in reviewing the system of assurance, whilst acknowledging the potential for improvement, believes the UHB had the necessary controls in place during the reporting period.

The Board is therefore asked to endorse the contents of this report as a summary of the work and findings of the Audit and Risk Assurance Committee for the financial year 2018/19.