



WALES AUDIT OFFICE  
SWYDDFA ARCHWILIO CYMRU

Agenda item: 5a

Archwilydd Cyffredinol Cymru  
Auditor General for Wales

# Audit of Financial Statements Report – **Abertawe Bro Morgannwg University Local Health Board**

Audit year: 2017-18

Date issued: May 2018

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We welcome correspondence and telephone calls in Welsh and English. Corresponding in Welsh will not lead to delay. Rydym yn croesawu gohebiaeth a galwadau ffôn yn Gymraeg a Saesneg. Ni fydd gohebu yn Gymraeg yn arwain at oedi.

The team who delivered the work comprised Ann-Marie Harkin, Geraint Norman, Julie Owens and the Abertawe Bro Morgannwg University Local Health Board audit team.

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The Auditor General intends to issue a qualified audit report on your 2017-18 financial statements and this will be supported by a substantive report. There are some issues to report to you prior to the Board's approval of the financial statements.

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# Summary report

## Introduction

- 1 The Auditor General is responsible for providing an opinion on whether the financial statements give a true and fair view of the financial position of Abertawe Bro Morgannwg University Local Health Board (the Health Board) at 31 March 2018 and its income and expenditure for the year then ended.
- 2 We do not try to obtain absolute assurance that the financial statements are correctly stated, but adopt the concept of materiality. In planning and conducting the audit, we seek to identify material misstatements in your financial statements, namely, those that might result in a reader of the financial statements being misled.
- 3 The quantitative level at which we judge such misstatements to be material for the Health Board is £13.6 million. Whether an item is judged to be material can also be affected by certain qualitative issues such as legal and regulatory requirements and political sensitivity.
- 4 International Standard on Auditing (ISA) 260 requires us to report certain matters arising from the audit of the financial statements to those charged with governance of a body in sufficient time to enable appropriate action.
- 5 This report sets out for consideration the matters arising from the audit of the financial statements of the Health Board, for 2017-18, that require reporting under ISA 260.

## Status of the audit

- 6 We received the draft financial statements for the year ended 31 March 2018 in line with the Welsh Government's agreed timetable and have now substantially completed our audit work.
- 7 We are reporting to you the more significant issues arising from the audit, which we believe you must consider prior to approval of the financial statements. The audit team has already discussed these issues with the Director of Finance and her team.

## Proposed audit report

- 8 It is the Auditor General's intention to issue a qualified audit report on the financial statements once you have provided us with a Letter of Representation based on that set out in [Appendix 1](#).
- 9 The proposed audit report is set out in [Appendix 2](#). The Auditor General will be issuing a substantive report alongside his audit report (also set out in [Appendix 2](#)). The report explains the two financial duties applicable from 2015-16, the performance of the Health Board against them to date and the implications for 2017-18.

## Significant issues arising from the audit

### Uncorrected misstatements

- 10 Due to the statutory duty to meet an aggregated three year resource limit (see [Appendix 2](#)), from 2015-16 we collate uncorrected misstatements from the audits of years 1, 2 and 3 and consider their cumulative impact on the Health Board's performance against the duty when it is measured at year 3. Where the net effect of the uncorrected misstatements over the three-year period would cause the Health Board to fail its aggregated resource limit and therefore receive a qualified regularity opinion, those misstatements are considered material by nature and are taken into account when assessing the Health Board's performance against this duty. For this reason we would recommend that all uncorrected misstatements which could impact on the performance against resource limit are amended in-year.
- 11 The Health Board shares financial risks relating to the Welsh Health Specialised Services Committee (WHSSC) with all Welsh local health boards. The audit of the financial information relating to this has identified that no amendments are required to the Health Board's financial statements as a result of this.
- 12 There are no misstatements identified from the audit of the 2017-18 financial statements which remain uncorrected. This was also the case for our 2015-16 and 2016-17 audits.

### Corrected misstatements

- 13 There are some misstatements which have been corrected by management, but which we consider should be drawn to your attention due to their relevance to your responsibilities over the financial reporting process. They are set out with explanations in [Appendix 3](#). The amendments to the financial statements are minor by nature and there is no impact on the Health Board's net expenditure.

### Other significant issues arising from the audit

- 14 In the course of the audit we consider a number of matters both qualitative and quantitative relating to the financial statements and report any significant issues arising to you. There are some issues to report to you.

**We have no significant concerns about the qualitative aspects of your accounting practices and financial reporting**

- 15 We found the information provided by the Health Board to be relevant, reliable, comparable, material and easy to understand. The Health Board has high quality working papers and quality assurance processes over the financial statements. We concluded that accounting policies and estimates are appropriate and financial statement disclosures unbiased, fair and clear.
- 16 As in previous financial years, there are a number of significant estimates made at the year-end when the financial statements are prepared. These and our conclusions are as follows:

Significant estimates	Assessment and conclusion
Primary care accruals for year-end expenditure (eg enhanced services, prescribing and dental).	Processes and estimates are assessed as reasonable. This also forms part of the monthly financial reporting processes.
Other health care providers accrual for year-end costs.	Agreement with all Welsh health care providers is collated and arbitrated through the Welsh Government matrix of transactions and balances. These processes and estimates are robust.
Clinical negligence and personal injury claims.	Estimates are reasonable – they are based on the Welsh Risk Pool's assessment and these processes are robust.
Retrospective continuing health care claims.	The estimate and methodology for assessing the level of provision are reasonable.

**We did not encounter any significant difficulties during the audit**

- 17 There were no significant difficulties during the audit. We received information in a timely and helpful manner and were not restricted in our work. Early discussion with the Finance Team on proposed methodologies and treatments of subjective account areas, and the financial statements presentation to the Audit Committee meeting in May 2018 were again particularly useful. The deadlines for submission of the financial statements are challenging and we would like to once again commend the Health Board's Finance team for the timing and quality of their work. The constructive but independent working relationships with the Director of Finance and her team have continued again this year.

**There were no significant matters discussed and corresponded upon with management which we need to report to you beyond those set out in the substantive report**

- 18 The Auditor General's substantive report in [Appendix 2](#) outlines the changes to statutory financial duties in the NHS, and the fact that the Health Board did not meet its financial duty to have an approved three-year integrated medium term plan for the period 2017-18 to 2019-20. The report also identifies that for 2017-18,

the Health Board did not meet its revenue resource allocation over the three-year period.

There are no other matters significant to the oversight of the financial reporting process that we need to report to you

- 19 The Health Board is required to prepare and include in its financial statements an Annual Governance Statement which sets out the Health Board's governance structures, systems of internal control and risk management and the effectiveness of these systems in operation during the year. We reviewed the Statement to consider its consistency with Manual for Accounts requirements and with other information known to us from our audit work. Alongside the Health Board, we identified a number of minor narrative and presentation adjustments, which have been reflected in the final Statement, and we will continue to work with management to further develop the Statement in future years.
- 20 There are no other matters significant to the oversight of the financial reporting process that we need to report to you.

We did not identify any material weaknesses in your internal controls

- 21 We have not identified any matters which are material to the accuracy and completeness of the financial statements. It is positive that the issues we reported last year have now been resolved.

There are no other matters specifically required by auditing standards to be communicated to those charged with governance

- 22 There are no other matters (such as those relating to fraud, compliance with laws and regulations, or subsequent events) that we need to report to you.

## Independence and objectivity

- 23 As part of the finalisation process, we are required to provide you with representations concerning our independence.
- 24 We have complied with ethical standards and in our professional judgment, we are independent and our objectivity is not compromised. There are no relationships between the Wales Audit Office and the Health Board that we consider to bear on our objectivity and independence.

# Appendix 1

## Final Letter of Representation

Auditor General for Wales  
24 Cathedral Road  
Cardiff  
CF11 9LJ

30 May 2018

## Representations regarding the 2017-18 financial statements

This letter is provided in connection with your audit of the financial statements (including that part of the Remuneration Report that is subject to audit) of Abertawe Bro Morgannwg University Local Health Board (the Health Board) for the year ended 31 March 2018 for the purpose of expressing an opinion on their truth and fairness and their proper preparation and the regularity of income and expenditure.

We confirm that to the best of our knowledge and belief, having made enquiries as we consider sufficient, we can make the following representations to you.

## Management representations

### Responsibilities

As Chief Executive and Accountable Officer I have fulfilled my responsibility for:

- preparing the financial statements in accordance with legislative requirements and the Treasury's Financial Reporting Manual. In preparing the financial statements, I am required to:
  - observe the accounts' directions issued by Welsh Ministers, including the relevant accounting and disclosure requirements and apply appropriate accounting policies on a consistent basis;
  - make judgements and estimates on a reasonable basis;
  - state whether applicable accounting standards have been followed and disclosed and explain any material departures from them; and
  - prepare them on a going concern basis on the presumption that the services will continue in operation.
- ensuring the regularity of any expenditure and other transactions incurred.
- the design, implementation and maintenance of internal control to prevent and detect error.



## Information provided

We have provided you with:

- full access to:
  - all information of which we are aware that is relevant to the preparation of the financial statements such as books of account and supporting documentation, minutes of meetings and other matters;
  - additional information that you have requested from us for the purpose of the audit; and
  - unrestricted access to staff from whom you determined it necessary to obtain audit evidence.
- the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- our knowledge of fraud or suspected fraud that we are aware of and that affects the Health Board and involves:
  - management;
  - employees who have significant roles in internal control; or
  - others where the fraud could have a material effect on the financial statements.
- our knowledge of any allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, regulators or others.
- our knowledge of all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.
- the identity of all related parties and all the related party relationships and transactions of which we are aware.
- our knowledge of all possible and actual instances of irregular transactions.

## Financial statements representations

All transactions, assets and liabilities have been recorded in the accounting records and are reflected in the financial statements.

Significant assumptions used in making accounting estimates, including those measured at fair value, are reasonable.

Related party relationships and transactions have been appropriately accounted for and disclosed.

All events occurring subsequent to the reporting date which require adjustment or disclosure have been adjusted for or disclosed.

All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to the auditor and

accounted for and disclosed in accordance with the applicable financial reporting framework.

All contingent liabilities have been identified and properly assessed. Contingent liabilities are considered to be not material to the financial statements.

The financial statements are free of material misstatements, including omissions. The effects of uncorrected misstatements identified during the audit are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

## Representations by those charged with governance

We acknowledge that the representations made by management, above, have been discussed with us.

We acknowledge our responsibility for ensuring that the company maintains adequate accounting records.

We acknowledge our responsibility for the preparation of true and fair financial statements in accordance with the applicable financial reporting framework. The financial statements were approved by the Health Board on 30 May 2018.

We confirm that we have taken all the steps that we ought to have taken in order to make ourselves aware of any relevant audit information and to establish that it has been communicated to you. We confirm that, as far as we are aware, there is no relevant audit information of which you are unaware.

Signed by:

[Officer who signs on behalf of management]

30 May 2018

Signed by:

[Officer or Member who signs on behalf of those charged with governance]

# Appendix 2

## Proposed audit certificate and report of the Auditor General

### **The Certificate and independent auditor's report of the Auditor General for Wales to the National Assembly for Wales**

#### **Report on the audit of the financial statements**

##### **Opinion**

I certify that I have audited the financial statements of Abertawe Bro Morgannwg University Health Board for the year ended 31 March 2018 under Section 61 of the Public Audit (Wales) Act 2004. These comprise the Statement of Comprehensive Net Expenditure, the Statement of Financial Position, the Cash Flow Statement and Statement of Changes in Tax Payers Equity and related notes, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and HM Treasury's Financial Reporting Manual based on International Financial Reporting Standards (IFRSs).

In my opinion the financial statements:

- give a true and fair view of the state of affairs of Abertawe Bro Morgannwg University Health Board as at 31 March 2018 and of its net operating costs for the year then ended; and
- have been properly prepared in accordance with the National Health Service (Wales) Act 2006 and directions made there under by Welsh Ministers.

##### **Basis for opinion**

I conducted my audit in accordance with applicable law and International Standards on Auditing in the UK (ISAs (UK)). My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. I am independent of the board in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

##### **Conclusions relating to going concern**

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Chief Executive has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the board's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

##### **Other information**

The Chief Executive is responsible for the other information in the annual report and accounts. The other information comprises the information included in the annual report other than the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in my report, I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of

performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

### **Basis for Qualified Opinion on Regularity**

The Health Board has breached its resource limit by spending £71.647 million over the £3,185.583 million that it was authorised to spend in the three year period 2015-16 to 2017-18. This spend constitutes irregular expenditure. Further detail is set out in the attached Report.

### **Qualified Opinion on Regularity**

In my opinion, except for the irregular expenditure of £71.647 million explained in the paragraph above, in all material respects, the expenditure and income have been applied to the purposes intended by the National Assembly for Wales and the financial transactions conform to the authorities which govern them.

### **Report on other requirements**

#### **Opinion on other matters**

In my opinion, the part of the remuneration report to be audited has been properly prepared in accordance with the National Health Service (Wales) Act 2006 and directions made there under by Welsh Ministers.

In my opinion, based on the work undertaken in the course of my audit:

- the information given in the Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and the Governance Statement has been prepared in accordance with Welsh Ministers' guidance;
- the information given in the Performance Report for the financial year for which the financial statements are prepared is consistent with the financial statements and the Performance Report has been prepared in accordance with Welsh Ministers' guidance.

#### **Matters on which I report by exception**

In the light of the knowledge and understanding of the board and its environment obtained in the course of the audit, I have not identified material misstatements in the Performance Report.

I have nothing to report in respect of the following matters, which I report to you, if, in my opinion:

- proper accounting records have not been kept;
- the financial statements are not in agreement with the accounting records and returns;
- information specified by HM Treasury or Welsh Ministers regarding remuneration and other transactions is not disclosed; or
- I have not received all the information and explanations I require for my audit.

### **Responsibilities**

#### **Responsibilities of Directors and the Chief Executive for the financial statements**

As explained more fully in the Statements of Directors' and Chief Executive's Responsibilities on pages 2-4, the Directors and the Chief Executive are responsible for the preparation of financial statements which give a true and fair view and for such internal control as the Directors and Chief Executive determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors and Chief Executive are responsible for assessing the board's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

#### **Auditor's responsibilities for the audit of the financial statements**

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of my auditor's report.

**Responsibilities for regularity**

The Chief Executive is responsible for ensuring the regularity of financial transactions.

I am required to obtain sufficient evidence to give reasonable assurance that the expenditure and income have been applied to the purposes intended by the National Assembly for Wales and the financial transactions conform to the authorities which govern them.

Huw Vaughan Thomas  
Auditor General for Wales  
13 June 2018

24 Cathedral Road  
Cardiff  
CF11 9LJ

## **Report of the Auditor General to the National Assembly for Wales**

### **Introduction**

Local Health Boards (LHBs) are required to meet two statutory financial duties – known as the first and second financial duties.

For 2017-18, Abertawe Bro Morgannwg University Local Health Board (the LHB) failed to meet both the first and the second financial duty and so I have decided to issue a narrative report to explain the position.

### **Failure of the first financial duty**

The **first financial duty** gives additional flexibility to LHBs by allowing them to balance their income with their expenditure over a three-year rolling period. The second three-year period under this duty is 2015-16 to 2017-18, and so it is measured this year for the second time.

As shown in Note 2.1 to the Financial Statements, the LHB did not manage its revenue expenditure within its resource allocation over this three-year period, exceeding its cumulative revenue resource limit of £3,185.583 million by £71.647 million. The LHB did not therefore meet its first financial duty.

Where an LHB does not balance its books over a rolling three-year period, any expenditure over the resource allocation (ie spending limit) for those three years exceeds the LHB's authority to spend and is therefore 'irregular'. In such circumstances, I am required to qualify my 'regularity opinion' irrespective of the value of the excess spend.

### **Failure of the second financial duty**

The **second financial duty** requires LHBs to prepare and have approved by the Welsh Ministers a rolling three-year integrated medium term plan. This duty is an essential foundation to the delivery of sustainable quality health services. An LHB will be deemed to have met this duty for 2017-18 if it submitted a 2017-18 to 2019-20 plan approved by its Board to the Welsh Ministers who then approved it by 30 June 2017.

As shown in Note 2.3 to the Financial Statements, the LHB did not meet its second financial duty to have an approved three-year integrated medium term plan in place for the period 2017-18 to 2019-20.

Following the LHB being placed in Targeted Intervention in September 2016, it was not in a position to submit a three-year Integrated Medium Term Plan for 2017-20. Instead the LHB has operated, in agreement with Welsh Government, under annual planning arrangements. The LHB's Annual Operating Plan for 2017-18, which identified a planned annual deficit of £36.000 million, was approved by its Board in March 2017. The LHB's eventual deficit for 2017-18 was £32.417 million.

Huw Vaughan Thomas  
Auditor General for Wales  
13 June 2018

24 Cathedral Road  
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# Appendix 3

## Summary of corrections and amendments made to the draft financial statements

During our audit we identified the following misstatements that have been corrected by management, but which we consider should be drawn to your attention due to their relevance to your responsibilities over the financial reporting process.

### Nature and value of correction

We have not made any material amendments to the draft financial statements. We have however made a small number of significant amendments:

- A number of amendments were made to disclosures in the Remuneration Report.
- Note 20 (Provisions) was amended to move £12.151 million from 'Reversed Unused' to 'Arising during the year' for clinical negligence provisions. This was to reflect the all-Wales agreed accounting treatment for removing the prior year's manual adjustment for discount rate changes. This amendment does not affect the closing balance for clinical negligence provisions at 31<sup>st</sup> March 2018.
- Note 21.1 (Contingent Liabilities) was amended to include £8.336 million of potential continuing health care costs that had been incorrectly excluded from the draft financial statements.

We have also made a number of minor amendments to the financial statements. We have not listed all of these items as they relate to either revisions in disclosures of information, narrative changes, reclassifications between headings, or the amounts involved are trivial.

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GIG  
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NHS  
WALES

Bwrdd Iechyd Prifysgol  
Abertawe Bro Morgannwg  
University Health Board

## Final Letter of Representation

Auditor General for Wales  
24 Cathedral Road  
Cardiff  
CF11 9LJ

30 May 2018

## Representations regarding the 2017-18 financial statements

This letter is provided in connection with your audit of the financial statements (including that part of the Remuneration Report that is subject to audit) of Abertawe Bro Morgannwg University Local Health Board (the Health Board) for the year ended 31 March 2018 for the purpose of expressing an opinion on their truth and fairness and their proper preparation and the regularity of income and expenditure.

We confirm that to the best of our knowledge and belief, having made enquiries as we consider sufficient, we can make the following representations to you.

## Management representations

### Responsibilities

As Chief Executive and Accountable Officer I have fulfilled my responsibility for:

- preparing the financial statements in accordance with legislative requirements and the Treasury's Financial Reporting Manual. In preparing the financial statements, I am required to:
  - observe the accounts' directions issued by Welsh Ministers, including the relevant accounting and disclosure requirements and apply appropriate accounting policies on a consistent basis;
  - make judgements and estimates on a reasonable basis;
  - state whether applicable accounting standards have been followed and disclosed and explain any material departures from them; and
  - prepare them on a going concern basis on the presumption that the services will continue in operation.
- ensuring the regularity of any expenditure and other transactions incurred.
- the design, implementation and maintenance of internal control to prevent and detect error.

## Information provided

We have provided you with:

- full access to:
  - all information of which we are aware that is relevant to the preparation of the financial statements such as books of account and supporting documentation, minutes of meetings and other matters;
  - additional information that you have requested from us for the purpose of the audit; and
  - unrestricted access to staff from whom you determined it necessary to obtain audit evidence.
- the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- our knowledge of fraud or suspected fraud that we are aware of and that affects the Health Board and involves:
  - management;
  - employees who have significant roles in internal control; or
  - others where the fraud could have a material effect on the financial statements.
- our knowledge of any allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, regulators or others.
- our knowledge of all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.
- the identity of all related parties and all the related party relationships and transactions of which we are aware.
- our knowledge of all possible and actual instances of irregular transactions.

## Financial statements representations

All transactions, assets and liabilities have been recorded in the accounting records and are reflected in the financial statements.

Significant assumptions used in making accounting estimates, including those measured at fair value, are reasonable.

Related party relationships and transactions have been appropriately accounted for and disclosed.

All events occurring subsequent to the reporting date which require adjustment or disclosure have been adjusted for or disclosed.

All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

All contingent liabilities have been identified and properly assessed. Contingent liabilities are considered to be not material to the financial statements.

The financial statements are free of material misstatements, including omissions. The effects of uncorrected misstatements identified during the audit are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Bwrdd Iechyd Prifysgol ABM yw enw gweithredu Bwrdd Iechyd Lleol Prifysgol Abertawe Bro Morgannwg  
ABM University Health Board is the operational name of Abertawe Bro Morgannwg University Local Health Board  
Pencadlys ABM / ABM Headquarters, 1 Talbot Gateway, Port Talbot, SA12 7BR. Ffôn / Tel: (01656) 752752

## Representations by those charged with governance

We acknowledge that the representations made by management, above, have been discussed with us.

We acknowledge our responsibility for ensuring that the company maintains adequate accounting records.

We acknowledge our responsibility for the preparation of true and fair financial statements in accordance with the applicable financial reporting framework. The financial statements were approved by the Health Board on 30 May 2018.

We confirm that we have taken all the steps that we ought to have taken in order to make ourselves aware of any relevant audit information and to establish that it has been communicated to you. We confirm that, as far as we are aware, there is no relevant audit information of which you are unaware.

Signed by:

Signed by:

On Behalf of the Chief Executive as  
Accountable Officer.

Chair of Board

Date: 30th May 2018

Date: 30<sup>th</sup> May 2018

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Mrs Tracy Myhill  
Chief Executive  
Abertawe Bro Morgannwg University Local Health Board  
One Talbot Gateway  
Baglan Energy Park  
Port Talbot  
SA12 7BR

<b>Reference</b>	0329.amh.abm
<b>Date</b>	29 March 2018
<b>Pages</b>	1 of 8

Dear Tracy

**Abertawe Bro Morgannwg University Health Board 2016-17 - Audit enquiries to those charged with governance and management**

In my 2018 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 Abertawe Bro Morgannwg University Local 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.

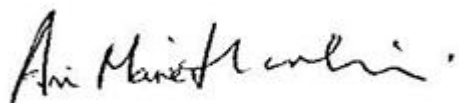
1. Management processes in relation to:
  - undertaking an assessment of the risk that the financial statements may be materially misstated due to fraud;
  - identifying and responding to risks of fraud in the organisation;
  - communication to employees of views on business practice and ethical behaviour; 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 2017-18 financial statements. I would be grateful if you could complete the attached table in **Appendix 1**.

Your responses should be formally considered and communicated to us on behalf of both management and those charged with governance by 17 May 2018. In the meantime, if you need anything further, please contact Geraint Norman on 07810056683 or by e-mail at [geraint.norman@audit.wales](mailto:geraint.norman@audit.wales)

Yours sincerely



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

cc Mrs Lynne Hamilton, Director of Finance

---

## Appendix 1

### International Standard for Auditing (UK and Ireland) 240 – The auditor’s responsibilities relating to fraud in an audit of financial statements

#### Background

Under the ISA, the primary responsibility for preventing and detecting fraud rests with both management and ‘those charged with governance’, which for Abertawe Bro Morgannwg University Health Board (the UHB) is the Board. This includes fraud that could impact on the accuracy of the annual accounts. The ISA requires us, as external auditors, to obtain an understanding of how the Board exercises oversight of management’s processes for identifying and responding to the risks of fraud and the internal controls established to mitigate them.

What is ‘fraud’ in the context of the ISA?

The ISA views fraud as either:

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

#### What are we required to do?

We have to obtain evidence of how management and those charged with governance are discharging their responsibilities if we are to properly discharge our responsibilities under ISA240. We are therefore making requests from both management and the Board:

#### Enquiries of management

Question	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?	The fundamental financial systems are robustly reviewed by internal audit on a regular basis to test that they are being used appropriately and that adequate controls are in place. Review of Financial Governance & Management within the Audit Committee approved Internal Audit Plan for 2017/18 has included Budgetary Control & Financial Reporting (FINAL @

## Enquiries of management

Question	Response
	<p>February 2018 = Substantial Assurance), and Financial Ledger (FINAL @ December 2017 = Substantial Assurance).</p> <p>In addition, the Director of Finance and Audit Committee receive internal audit reports relating to NWSSP processing functions including Employment Services (Payroll &amp; Recruitment) and Procurement &amp; Accounts Payable. These provide assurance regarding financial controls operated within services performed on the Health Board's behalf under the NWSSP SLA.</p> <p>Consequently, the Health Board views the risk of material misstatement within the financial statements as minimal.</p> <p>As well as approving the Internal and External Audit Plans for the year, the Audit Committee approves the Annual Work Programme for the Local Counter Fraud Specialist Team and the Post Payment Verification Programme for GMS Enhanced Services, General Pharmaceutical Services &amp; GOS. Annual Reports and Audit Opinions are also produced and reviewed by the Committee.</p> <p>The Draft Annual Accounts are reviewed separately by very senior key finance staff including the Director of Finance and Head of Accounting. Analytical reviews are completed and key variances between financial years investigated and explained before the draft accounts are submitted to Welsh Government and to WAO for audit review. Presentations of the Draft and Final Audited Accounts are also prepared which include these</p>

## Enquiries of management

Question	Response
	<p>key variances for the Audit Committee's review prior to their approval and recommendation for adoption by the Board.</p>
<p>2. How can management assure the Board that it has not been inappropriately influenced by external pressures?</p>	<p>The Health Board's Standing Financial Instructions are designed to achieve probity, accuracy, economy, efficiency, effectiveness and sustainability in the conduct of business, they translate statutory and Welsh Government financial requirements for the NHS in Wales into day to day operating practice. Together with the adoption of Standing Orders (SOs), a Schedule of decisions reserved to the Board and a Scheme of delegation to officers and others, they provide the regulatory framework for the business conduct of the Health Board.</p> <p>The Health Board has the following policies in place to ensure due diligence is applied in the operation of Health Board activity:</p> <ul style="list-style-type: none"> <li>• Standards of Behaviour Framework Policy (including bribery, fraud)</li> <li>• Counter Fraud Policy.</li> </ul> <p>It is a requirement that annual declaration of interests are obtained from specific groups of Employees and Independent Members to complete mandatory declarations in respect of any conflicts of interest, or submit a nil return where no interests apply.</p> <p>Regular reports are prepared for the Audit Committee to include single tender action and single quotation procurements, requests for contract extensions, declaration of interest registers and the hospitality register as well as all internal (including capital) and external audit reports.</p>
<p>3. Are management aware of any organisational pressure to meet revenue and capital budgets or other financial constraints?</p>	<p>There are significant internal and external pressures, which have contributed to the inability to prepare and deliver a balanced Integrated Medium Term Plan this year. The Health</p>



## Enquiries of management

Question	Response
	<p>Board does have financial duties, including statutory ones, that it is not expected to meet in 2017/18. As the Health board is in targeted intervention, regular meetings take place between the Executive Team and Welsh Government to monitor performance in aiming to secure the best outcome this year in aiming for all financial and non-financial targets.</p>
<p>4. What processes are employed to identify and respond to the risks of fraud more generally and specific risks of misstatement in the financial statements?</p>	<p>The Health Board has a Counter Fraud, Bribery &amp; Corruption Policy and Response Plan in place which is intended to provide direction and help to staff, Officers and Directors who identify and/or find themselves having to deal with suspected cases of economic crime. It gives a framework for a response, and advice and information on various aspects and implications of an investigation.</p> <p>A written work plan is produced at the beginning of each financial year, the content of which takes due account of the following:</p> <ul style="list-style-type: none"> <li>- An assessment of the work required to ensure consistent and effective implementation and delivery of the NHS Counter Fraud Authority Fraud, Bribery and Corruption Standards for NHS Bodies</li> <li>- Measures required to address any recommendations made following Quality Assessment reviews undertaken by the NHS Counter Fraud Authority</li> <li>- An assessment of the main risks facing the Health Board at that time</li> </ul> <p>Progress against the plan is monitored during the year by the Director of Finance and Audit Committee.</p>
<p>5. How has management communicated expectations of ethical governance and standards of conduct and behaviour to all</p>	<p>The Health Board is committed to ensuring that its employees and independent members practice the highest standards of</p>

## Enquiries of management

Question	Response
relevant parties, and when?	<p>conduct and behaviour. To that end, the Standards of Business Conduct have been produced (and incorporated within Standing Orders) which sets out those expectations and provides supporting guidance.</p> <p>The 'Seven Principles of Public Life (The Nolan Principles) form the basis of the Health Board's standards of business conduct requirements, supplemented by the Health Board's own Values and Behaviour Framework.</p> <p>The Standards of Business conduct are freely available to all staff via the Health Board intranet site, and promoted via Health Board intranet articles on an annual basis; with particular reference to the need to declare secondary employment.</p> <p>Awareness of the Standards is further promoted during face-to-face fraud awareness sessions, which have reached over 7,000 during the last 3 years.</p>
6. What arrangements are in place to report about fraud to those charged with governance?	<p>The Health Board Audit Committee, membership of which includes Non-Officer members of the Board, together with the Director of Finance reviews and approves both the Counter Fraud Work Plan and Annual Report. In addition, the Director of Finance and Audit Committee also receive update reports throughout the year which contain information on progress against the plan, as well as a summary of the LCFS active investigative caseload.</p> <p>Updates on cases being investigated by CFS Wales on behalf of the Health Board are also provided to the Director of Finance.</p>

## Enquiries of the Board

Question	Response
<p>1. How does the Board, in its role as those charged with governance, exercise oversight of management's processes for identifying and responding to the risks of fraud within the UHB and the internal control that management has established to mitigate those risks?</p>	<p>As part of its delegated powers and authority, Audit Committee Terms of Reference state that with regard to its role in providing advice to the Board, the Committee will comment specifically upon the planned activity and results of internal audit, external audit and the Local Counter Fraud Specialist (including strategies, annual work plans and annual reports). This includes anti fraud policies, whistle-blowing processes and arrangements for special investigations.</p> <p>The Audit Committee supports the Board in its governance responsibilities by designing a work programme which provides assurance that (amongst other things) there is an effective counter fraud service that meets the standards set for the provision of counter fraud in the NHS in Wales, and provides appropriate assurance to the Board and the Accountable Officer through the Committee.</p> <p>In doing so, the Audit Committee approves the counter fraud work plan, and receives regular progress reports and an annual report at the end of each year. The Committee also receives the annual Self Review Tool (SRT) which details progress made by the Health Board in implementing the NHS Counter Fraud Authority Fraud, Bribery and Corruption Standards for NHS Wales, as well as reports following any quality assessment reviews undertaken.</p>
<p>2. Has the Board knowledge of any actual, suspected or alleged fraud since 1 April 2017?</p>	<p>Via regular reporting to the Audit Committee, Board members are made aware of allegations of fraud received. Allegations have been received since April 2017. The outcome of all investigations undertaken in also reported to the Board.</p>
<p>3. Has the Board any suspicion that fraud may be occurring within the organisation?</p>	<p>The Board is not aware of any fraud or suspicions thereof within the Health Board, other than that which has been reported to the Local Counter Fraud Specialist.</p>
<p>4. Is the Board satisfied that internal controls, including segregation of duties, exist and work effectively? If 'yes', please provide</p>	<p>Independent assurance on the effectiveness of the control environment is provided through the work of Internal Audit as</p>

## Enquiries of the Board

Question	Response
<p>details. If 'no' what are the risk areas?</p>	<p>reported through individual audit reports, quarterly progress reports and the Annual Audit Report and the Head of Internal Audit opinion. In addition the Committee also considers the annual structured assessment by the Wales Audit Office and reports from other regulators. these are summarised in the Annual Governance Statement considered by the Audit Committee and the Board.</p>
<p>5. How do you encourage staff to report their concerns about fraud and what concerns about fraud are staff expected to report?</p>	<p>Staff are encouraged to report any and all concerns they may have in respect of economic crimes which they believe may have been or are being perpetrated against the Health Board, or the wider NHS. This is done in a number of ways:</p> <ol style="list-style-type: none"> <li>1. Health Board intranet site</li> <li>2. Counter Fraud Policy &amp; Response Plan</li> <li>3. Bi-annual Counter Fraud Newsletters</li> <li>4. Face-to-Face presentations, with over 300 being undertaken during the last 3 years, reaching more than 7,000 staff.</li> </ol> <p>All of the above publicise the contact details for the local LCFS, as well as the National Fraud &amp; Corruption Reporting Line and Online Reporting Tool.</p> <p>Appropriate signposting entries have also been included in the Procedure for NHS Staff to Raise Concerns.</p> <p>All of the above is supplemented by posters and leaflets distributed around Health Board sites.</p>
<p>6. From a fraud and corruption perspective, what are considered by the Board to be high risk posts within the organisation and how are the risks relating to these posts identified, assessed and managed?</p>	<p>Due to the nature of the Health Board's activities and being accountable to the public for the services it provides, all areas and posts have some level of risk associated with them. However in this context the highest risk would be with those staff/posts who commit resources directly by ordering goods or services, and those who do so indirectly.</p>

## Enquiries of the Board

Question	Response
	<p>Standing Orders, Standing Financial Instructions and Financial Control Procedures, describe the control environment and processes in place relating to obtaining tenders and quotations, and the subsequent commitment of resources via orders and contracts. These contain a number of controls which have the effect of mitigating or reducing the risk of bribery or corruption, such as separation of duties and delegated authorisation limits.</p> <p>All single tender/quotation actions must be independently scrutinised by NWSSP Procurement Services colleagues and endorsed as such prior to being submitted for authorisation.</p> <p>All members of staff are required to declare if they, or a close relative or associate, have a controlling or financial interest in a business, which could impact on the activities of the LHB. All such interests should be declared to the LHB on starting employment, (by way of the job application form), and/or on acquisition of the interest. These declarations are kept in a Register by the Board Secretary and reported to the Audit Committee.</p> <p>Regular reports are prepared for scrutiny by the Audit Committee, including details of single tender/quotation actions, requests for contract extensions and registers of declarations of interests and gifts and hospitality.</p>
<p>7. Is the Board aware of any related party relationships or transactions that could give rise to instances of fraud and how does the Audit Committee mitigate the risks associated with fraud related to related party relationships and transactions?</p>	<p>Each Director has stated in writing on an annual basis that there is no relevant audit information of which the NHS body's auditors are unaware and that they have taken all the steps that they ought to have taken as a director in order to make them aware of any relevant audit information and to establish that the NHS body's auditors are aware of that information. This is included in the Annual Report received by the Audit Committee.</p> <p>All Board members and Clinical Directors within the Health</p>

## Enquiries of the Board

Question	Response
	Board have declared any interests in companies which may result in a conflict with their managerial responsibilities. No material interests have been declared during 2017-2018. These reports are received by the Audit Committee. If any potential conflicts of interest are highlighted or reported the person would be excluded from participating in any current or future decision making relating to the activity concerned.
8. Is the Board aware of any entries made in the accounting records of the organisation that it believes or suspects are false or intentionally misleading?	The Audit Committee are not aware of any entries made in the accounting records that it considers to be false or intentionally misleading.
9. Is the Board aware of any organisational, or management pressure to meet revenue and capital budgets or other financial constraints?	The Board has an annual plan which sets out the service and financial challenges facing the organisation and there are routine reports to the Board on the financial position. The Wales Audit Office undertake an annual Structured Assessment, which highlights financial challenges and this is reported to the Board and Audit Committee.

## International Standard for Auditing (UK and Ireland) 250 – Consideration of laws and regulations in an audit of financial statements Background

Under the ISA, in the UK and Ireland, the primary responsibility for ensuring that the entity's operations are conducted in accordance with laws and regulations and the responsibility for the prevention and detection of non-compliance rests with management and 'those charged with governance', which for the HB is the Board. The ISA requires us, as external auditors, to obtain an understanding of how the Committee gains assurance that all relevant laws and regulations have been complied with.

### What are we required to do?

We have to obtain evidence of how management and those charged with governance are discharging their responsibilities, if we are to properly discharge our responsibilities under ISA 250. We are therefore making requests from both management and the Board:

## Enquiries of management

Question	Response
1. How have you gained assurance that all relevant laws and regulations have been complied with?	Legal implications are considered as necessary in all papers to the Board.
2. Are there any potential litigations or claims that would affect the financial statements?	All known Clinical Negligence and Personal Injury cases have been assessed by the WHLS within NWSSP and the financial impact included within the financial statements, either as provisions or contingent liabilities as appropriate. All known Phase 1, 2 and 3 CHC retrospective cases have been assessed by Powys and Local Retrospective Teams and the financial impact included as provisions or contingent liabilities as appropriate.as agreed with WAO. Phase 4 & 5 CHC cases have also been provided for within the financial statements for 2017/18.

## Enquiries of the Board

Question	Response
1. How does the Board, in its role as those charged with governance, exercise oversight of management's processes to ensure that all relevant laws and regulations have been complied with?	Audit reports provide the Audit Committee with assurance as to whether appropriate control measures are in place and whether the Health Board is compliant with current standard practice.
2. Is the Board aware of any non-compliance with relevant laws and regulations?	The Audit Committee is not aware of any non compliance issues in relation to relevant laws and regulations, except those reported as Standing Order breaches. Any such incidents would be reported to the Committee if they occurred as happens in instances of non-compliance with for example, Standing Orders or Standing Financial Instructions.

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## Enquiries of the Board

Question	Response
3. If there have been instances of non-compliance what are they, and what oversight has the Board had to ensure that action taken by management to address and gaps in control?	There have not been any instances of non-compliance, except breaches of Standing Orders during the year which are reported to Audit Committee.



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## **International Standard for Auditing (UK and Ireland) 550 – Related parties**

### **Background**

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. For example:

- Related parties may operate through an extensive and complex range of relationships and structures, with a corresponding increase in the complexity of related party transactions.
- Information systems may be ineffective at identifying or summarising transactions and outstanding balances between an entity and its related parties.
- Related party transactions may not be conducted under normal market terms and conditions; for example, some related party transactions may be conducted with no exchange of consideration.

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?**

Where the applicable financial reporting framework establishes requirements for related parties, the auditor has a responsibility 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. We are therefore making requests from both management and the Board:

## Enquiries of management

Question	Response
<p>1. What controls are in place to identify, authorise, approve, account for and disclose related party transactions and relationships?</p>	<p>The Health Board's Standing Orders state that the Chairman and all Board members must annually declare any personal, business or pecuniary interest, direct or indirect, they have which may affect, or be perceived to affect the conduct of their role as a Board member. This should include, as a minimum, personal direct and indirect financial interests, and also include such interests in the case of close family members. Board members must notify the Board of any such interests at the time of their appointment, and any further interests as they arise throughout their tenure as Board members. The Health Board's Standing Orders also state that all members of staff should declare, to the best of their knowledge, if they, or a close relative, or associate, have a controlling or financial interest in a business, which could impact on the activities of the LHB. All staff must declare all private interests which could potentially result in personal gain as a consequence of their position within the LHB.</p> <p>All declared Interests have been entered onto the Register held corporately and reported to the Audit Committee during the course of the year.</p> <p>Details of related party transactions of Board Members are included within the Annual Accounts which are reviewed and approved by Audit Committee and then the Board</p>
<p>2. Confirm that you have:</p> <ul style="list-style-type: none"> <li>disclosed to the auditor the identity of the entity's related parties and all the related party relationships and transactions of which you are aware; and</li> <li>appropriately accounted for and disclosed such relationships and</li> </ul>	<p>The Financial Statements disclose the identity of related parties and is compliant with the requirements of accounting legislation</p>

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transactions in accordance with the requirements of the framework.

## Enquiries of the Board

Question	Response
1. How does the Board, 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?	<p>The Audit Committee receives the Financial Statements in draft and final audited versions, which include the relevant disclosures.</p> <p>The Audit Committee Work Programme for 2017/18 was approved by the Board and includes reporting of Directors and staff interests.</p> <p>The Audit Committee are able to scrutinise, challenge and query any aspect of the accounts and request further supporting information or initiate any additional work to assure themselves this area is addressed.</p>