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Dear Mark,

Cwm Taf Morgannwg University Health Board's 2021-22 financial statements: audit enquiries to those charged with governance and management

As your external auditors we are 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 the audit of the financial statements. These considerations are relevant to both:

- management; and
- the Board, who are deemed to be 'those charged with governance'.

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

1. management's 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. I am also seeking views on:

- management's and the Board's awareness of any actual or alleged instances of fraud;
- how management and the Board gain assurance that all relevant laws and regulations have been complied with;
- whether there is any potential litigation or claims that would affect the financial statements;
- management processes to identify, authorise, approve, account for and disclose related party transactions and relationships and the Board's oversight of these processes; and
- 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 2021-22 financial statements.

I would be grateful if you could complete the attached tables in **Appendices 1 to 3**. Your responses should be formally considered and communicated to us on behalf of both management and those charged with governance by 31 March 2022. In the meantime, if you have queries, please contact me via Teams, on 07748 181679, or by e-mail.

Yours sincerely,

A handwritten signature in blue ink, consisting of stylized initials 'MJ' followed by a horizontal line.

Mark Jones
Audit Manager

Appendix 1

Matters in relation to fraud

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

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

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

What are we required to do?

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

- the intentional misappropriation of assets; or
- the intentional manipulation or misstatement of the financial statements.

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

Enquiries of management - in relation to fraud	
Question	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?	<p>The risk remains small. We are not aware of any fraud that would impact materially on our financial statements.</p> <p>Counter fraud and internal audit coverage has been maintained.</p>
2. What processes are employed to identify and respond to the risks of fraud more generally and specific risks of misstatement in the financial statements?	<p>A written counter fraud work plan is produced each year, which is agreed by the Executive Director of Finance and approved by the Audit & Risk Committee. Progress against the plan is monitored by both the Executive Director of Finance and Audit & Risk Committee.</p> <p>The Health Board has a Counter Fraud, Bribery and Corruption Policy and Response Plan in place which provides direction and supports anyone who might identify and/or find themselves having to deal with suspected cases of economic crime. It provides a framework for a response, and advice and information on various aspects and implications of an investigation.</p> <p>CTM has actively participated in the National Fraud Initiative during 2021-2022 and will continue to do so going forward.</p>

	<p>There is also a dedicated “Countering Fraud in the NHS” page on the Health Board’s SharePoint site for staff.</p> <p>This site captures the following information:</p> <ul style="list-style-type: none"> • What is Fraud • National Fraud Initiative – CTMUHB • Directions to NHS Bodies on Counter Fraud Measures. • Local Counter Fraud Specialist details • The Health Boards Policy on Fraud and Corruption. • What you should do. • Bribery Act 2010 • Gifts & Hospitality <p>The site also includes “Case Examples”, previous newsletters, useful links and other useful documents.</p>
3. What arrangements are in place to report fraud issues and risks to the Audit Committee?	<p>The Local Counter Fraud Specialist through attends all regular meetings of the Audit & Risk Committee and through their attendance presents regular reports on counter fraud activity and any material changes to the annual work plan.</p>
4. How has management communicated expectations of ethical governance and standards of conduct and behaviour to all relevant parties, and when?	<p>The CTMUHB Standing Orders articulate the Standards of Behaviour expected by Board Members, Health Board Officers and others as appropriate within the organisation.</p>

	<p>The CTMUHB Standards of Behaviour Policy sets out the Health Board's commitment to ensuring that its Employees and Independent Board Members practice the highest standards of conduct and behaviour. The policy sets out those expectations and provides supporting guidance so that all employees and Independent Board Members are supported in delivering that requirement.</p> <p>Awareness of this key document is actively promoted by the Local Counter Fraud Services function, for example during training presentations.</p> <p>Revised training and awareness slides have been included in the Welcome Day Induction for new staff which includes Corporate Governance and Standards of Behaviour and Counter Fraud Awareness.</p> <p>In October 2020, the Health Board launched its new values and behaviours:</p> <ul style="list-style-type: none"> • We Listen, Learn and Improve • We Treat Everyone with Respect • We All Work Together as One Team <p>The Director of Corporate Governance is the Counter Fraud Champion for the Health Board.</p>
<p>5. Are you aware of any instances of actual, suspected or alleged fraud since 1 April 2021?</p>	<p>On 1 April 2021 the Health Board's Counter Fraud Team had 13 cases of suspected or alleged fraud open on their case management system. From 1st April 2021 – 31st December 2021 the Counter Fraud</p>

Team received 14 allegation referrals. During the same period the Counter Fraud Team closed 11 investigations. As at 1st January 2022 the Counter Fraud Team had 16 cases of suspected or alleged fraud open on their case management system. The allegations investigated have resulted in 5 civil actions of financial recovery and 1 criminal conviction.

Enquiries of those charged with governance – in relation to fraud

Question	Response
1. How does the Board exercise oversight of management's processes for identifying and responding to the risks of fraud within the audited body and the internal control that management has established to mitigate those risks?	<p>The Audit & Risk Committee continues to receive both internal and external audit review reports at each meeting.</p> <p>The Audit & Risk Committee is responsible for ensuring the Health Board has adequate arrangements to counter fraud that meet NHSCFA (NHS Counter Fraud Authority) standards, and for reviewing outcomes of work in this area. It is also responsible for reviewing the adequacy/effectiveness of policies and procedures for work related to counter fraud. This includes the Counter Fraud Policy and Response Plan.</p> <p>The Audit & Risk Committee approves the annual counter fraud work plan, and monitors delivery via regular update reports at each meeting culminating in an annual report at the end of each financial year. This annual report includes a copy of the Health Board's annual self-assessment of performance in the delivery of the fraud bribery and corruption standards for NHS Wales, produced by the NHS Counter Fraud Authority. Outcome reports following all NHS Counter Fraud Authority quality assurance assessment visits are also provided to the Audit & Risk Committee.</p>

	<p>To ensure that the Audit & Risk Committee effectively monitors the implementation of management actions arising from Counter fraud reports, actions are currently being aligned and captured in the Audit Tracker which is routinely received and monitored at Committee meetings.</p> <p>If there were significant fraud risks rated 15 above they would be escalated to the Organisational Risk Register that is received at all Committee meetings.</p> <p>The Local Counter Fraud Specialist attends all Committee meetings and would bring any material risks / concerns to the attention of the Committee. They also have direct access to the Committee Chair.</p>
2. Are you aware of any instances of actual, suspected or alleged fraud since 1 April 2021?	Duplicated from question 5 above.

Appendix 2

Matters in relation to laws and regulations

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

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

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

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

What are we required to do?

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

Enquiries of management – in relation to laws and regulations

Question	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 or Board Committees. Processes are in place to consider and address any reported regulatory / statutory breaches e.g. Data Protection, Health & Safety at Work; Fire Safety etc. and where appropriate these are referenced within the Governance Statement, this includes the Sub Ordinate legislation approved by the National Assembly for Wales.
2. Have there been any instances of non-compliance or suspected non-compliance with relevant laws and regulations since 1 April 2021, or earlier with an ongoing impact on the 2021-22 financial statements?	There are no known instances of non-compliance or suspected non-compliance with relevant laws and regulations since 1 April 2021 or earlier, with an ongoing impact on the 2021-2022 financial statements.
3. Are there any potential litigations or claims that would affect the financial statements?	All known litigation or claims are either provided for within the financial statements or disclosed as a contingent liability or contingent asset as appropriate.

4. Have there been any reports from other regulatory bodies, such as HMRC which indicate non-compliance?

Not to the best of our knowledge.

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

Question	Response
1. How does the Board, in its role as those charged with governance, obtain assurance that all relevant laws and regulations have been complied with?	As indicated above legal implications are considered as necessary in all papers to the Board or Board Committees. Processes are in place to consider and address any reported regulatory / statutory breaches e.g. Data Protection, Health & Safety at Work; Fire Safety etc. and where appropriate these are referenced within the Annual Governance Statement, this includes the Sub Ordinate legislation approved by the National Assembly for Wales.
2. Are you aware of any instances of non-compliance with relevant laws and regulations?	Other than those referenced within the Annual Governance Statement, no.

Appendix 3

Matters in relation to related parties

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

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

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

What are we required to do?

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

Enquiries of management – in relation to related parties

Question	Response
<p>1. Confirm that you have disclosed to the auditor:</p> <ul style="list-style-type: none">– the identity of any related parties, including changes from the prior period;– the nature of the relationships with these related parties; and– details of any transactions with these related parties entered into during the period, including the type and purpose of the transactions.	<p>Declarations of interest are reported to the Audit & Risk Committee on a quarterly basis and are available for audit scrutiny as required.</p> <p>All Board Members have returned a Declaration of Interest form for the period 2021-2022.</p>
<p>2. What controls are in place to identify, authorise, approve, account for and disclose related party transactions and relationships?</p>	<p>The revised form introduced in 2020 was developed based on best practice in NHS Wales for immediate adoption by the Health Board. The new form strengthened the previous process by capturing the relationships required, including any financial transactions and/or benefits in kind aligned with the activity declared. The revised form also requires line manager consideration of any declarations to ensure any potential conflicts of interest are managed appropriately and in a timely manner, taking advice from the Corporate Governance Team as required.</p>

Both an automated and hard copy form completion is in place to complete forms that require initial 'sign off' by Line Managers and then Corporate Governance to review and approve.

During 2021, revised SharePoint pages supporting the Declarations of Interest and Gifts, Hospitality & Sponsorship will be formally launched to provide staff with links to the online reporting tools and all information required with FAQ's etc.

All Declarations of Interest received by the Corporate Governance Function are reviewed and approved for entry on the Declarations of Interest Register. Where further information or queries are raised these are directed back to the individual and their Line Manager as appropriate to address.

Declarations of Interest responsibilities are also captured in the new PADR process launched in 2021-2022 to encourage individual and Line Manager discussions on the need to declare and comply with the Standards of Behaviour Framework Policy.

During 2021-2022, the Counter Fraud Team established fortnightly Counter Fraud Awareness Training sessions to be run over Teams which is advertised on the Counter Fraud page and also shared via the Communications Team. The DOI process is included in the awareness session

The Welcome Day Induction includes a dedicated section on Corporate Governance and Counter Fraud which captures the requirement for declaring interests.

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

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 Health Board continues to operate systems that record declarations of interest and summaries of gifts and hospitality offered and received.</p> <p>The Audit & Risk Committee as the Board Committee charged with seeking assurance on the DOI process receive the Declaration of Interest Register at every other meeting including compliance with returns as appropriate.</p> <p>The Board approves the Standards of Behaviour Framework Policy that governs the process for managing Declarations of Interest Health Board every three years or as and when there are changes required.</p> <p>Board Member Declarations of Interest are reported in the Health Board's Annual Report which is approved by the Board.</p>