



# Shrewsbury and Telford Hospital NHS Trust

## Head of Internal Audit Opinion 2013/14

April 2014



This report has been prepared on the basis of the limitations set out in Appendix B.

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## **Distribution List**

### ***For Action***

Accountable Officer

### ***For Information***

Audit Committee

## **Auditors**

Gus Miah – Partner

Martin Owen – Senior Manager

Jenny Turton – Senior Manager

Jessica Seymour – Manager

# 1. Introduction

## Purpose of report

Based on the work that Deloitte Internal Audit has undertaken in 2013/14, this report provides the Head of Internal Audit Opinion on the effectiveness of the system of internal control for Shrewsbury and Telford NHS Trust for the year ended 31 March 2014.

## Roles and responsibilities

The whole Board is collectively accountable for maintaining a sound system of internal control and is responsible for putting in place arrangements for gaining assurance about the effectiveness of that overall system.

The Annual Governance Statement (AGS) is an annual statement by the Accountable Officer, on behalf of the Board, setting out:

- how the individual responsibilities of the Accountable Officer are discharged with regard to maintaining a sound system of internal control that supports the achievement of the Trust's policies, aims and objectives, whilst safeguarding public funds;
- the purpose of the system of internal control as evidenced by a description of the risk management and review processes, including the Assurance Framework process; and
- the conduct and results of the review of the effectiveness of the system of internal control, including any disclosures of significant control failures together with assurances that actions are or will be taken where appropriate to address issues arising.

The organisation's Assurance Framework should bring together all of the evidence required to support the AGS requirements.

## Roles and responsibilities (continued)

In accordance with NHS Internal Audit Standards, the Head of Internal Audit (HoIA) is required to provide an annual opinion, based upon and limited to the work performed, on the overall adequacy and effectiveness of the organisation's risk management, control and governance processes (i.e. the organisation's system of internal control). This is achieved through a risk-based plan of work, agreed with management and approved by the Audit Committee, which should provide a reasonable level of assurance, subject to the inherent limitations described below.

The opinion does not imply that Internal Audit has reviewed all risks and assurances relating to the organisation. The opinion is substantially derived from the conduct of risk-based plans generated from a robust and organisation-led Assurance Framework. As such, it is one component that the Board takes into account in making its AGS.

## 2. The Head of Internal Audit Opinion

### Purpose of HoIA opinion

The purpose of my Annual HoIA Opinion is to contribute to the assurances available to the Accountable Officer and the Board which underpin the Board's own assessment of the effectiveness of the organisation's system of internal control. This Opinion will, in turn, assist the Board in the completion of its AGS.

My opinion is set out as follows:

- Overall Opinion;
- Basis for the Opinion; and
- Commentary.

### Overall Opinion – Core Internal Audit

During 2013/14, we issued nine core internal audit reports and five performance reports. We issued substantial assurance ratings for six core internal audit reports. We issued moderate assurance ratings for three core internal audit reports:

- IT controls;
- asset maintenance; and
- budgetary control.

We draw your attention to the fact that we have raised one high priority recommendation in respect of the core internal audits:

Asset maintenance – one high priority recommendation in relation to asset tracking and disposal was made in September 2013. Management is in the process of implementing mitigating controls recommended by us to address this control weakness.

Whilst the Trust has continued to develop and strengthen its control framework during 2013/14, there remains scope for improvement and the Trust should continue to strengthen controls in the areas of weakness identified by our work during 2013/14 as a priority. In delivering our 2014/15 annual internal audit plan, we will continue to work with the Trust as it seeks to develop and improve its risk, governance and internal control framework.

Our cash management and budgetary control reviews, whilst not identifying significant control issues, did raise concerns about the Trust's outcomes in these areas. In particular:

- the Trust's cash position is supported by a £3m loan from the NHS Trust Development Authority and £1m overpayment from specialised commissioning; and
- the forecast cash position at year end is an overdraft of £9.6m if no mitigating actions are taken (although we recognise that the Trust does have in place mitigating actions).

Our serious concerns over the potential consequences of the current and forecast financial position were formally communicated to the Chair of the Audit Committee in February 2014. The Chair of the Audit Committee has shared our concerns with the Trust Board and responded to confirm that the Board is very focussed on the need for the Trust to live within its means whilst working with the wider health economy to consider options for a sustainable future.

We highlight the potentially significant consequences of the Trust's financial position and acknowledge that the Trust is taking steps to address this currently.

## 2. The Head of Internal Audit Opinion (continued)

### Overall Opinion – Performance Reviews

As part of our annual internal audit plan, we also deliver a number of advisory and performance reviews. We carried out five performance reviews during 2013/14 and four of these reports included high priority recommendations as follows:

#### 1) Falls Management - four high priority recommendations in relation to:

- Ensuring that the Falls Group aligns their operational action plan to the falls risks identified at Board level;
- Updating the format of the Falls Group to ensure there is a focus on action and shared learning rather than on retrospective review of incidents, increasing attendance and multi-disciplinary involvement;
- Implementing locally identified actions across the whole Trust where they are applicable Trust wide; and
- Implementing good practice for 1-2 hourly comfort rounds rather than 4 hourly comfort rounds.

#### 2) 18 week pathway- four high priority recommendations in relation to:

- Developing a plan that takes forward the Board's support for further centralisation of booking services and patient access;
- Devising a comprehensive 18 weeks training programme incorporating both rules / principles of 18 weeks and SEMA training, rolled out in a rapid timescale with mandatory refresher training;
- Agreement of a universal validation process; and
- Comprehensively reviewing the full suite of rules in effect in SEMA currently, cleansing invalid rules, and instigating new valid rules which are not already present.

### 3) Complaints – five high priority recommendations in relation to:

- Ensuring that all members of the complaints team receive an appraisal, that development and training needs are addressed and performance standards formalised;
- Putting in place clearly defined standard operating procedures which are clearly documented and holding a training session with the complaints team staff to embed this;
- Consult with key stakeholders to develop reports that provide a deeper level of analysis and interpretation and meet the needs of the wider organisation;
- Introducing structured meetings of the complaint team to provide monitoring and assurance; and
- Immediate action to ensure that a robust flagging / tracking process is in place to prevent lengthy delays in follow up in complaints actions.

### 4) 'PAS Change Management Support Outpatients' (Finnamore Report) Follow Up Review – two high priority recommendations in relation to:

- Reconsidering the seven outstanding Finnamore recommendations in the light of the Trust's current requirements then cross referencing the two action plans to the Finnamore recommendations to determine whether there are any gaps and to update the plans to address them; and
- Considering how best to utilise Trust resources and the priority placed on the delivery of the Booking and Scheduling changes, with a single owner at senior level identified to ensure that action plans are delivered and staff held to account.

Management has accepted all of the above recommendations and signed up to formal action plans to address the significant control weaknesses in these areas.

## 2. The Head of Internal Audit Opinion (continued)

### Overall Opinion

Whilst control weaknesses have been identified in some areas, we recognise that the senior management team is responding appropriately to these findings and is implementing action plans to address them.

My **overall opinion** for core internal audit in the year ended 31 March 2014 is that:

**Significant assurance** can be given as there is a generally sound system of internal control, designed to meet the organisation's objectives, and that controls are generally being applied consistently. However, weaknesses in the design and / or consistent application of controls put the achievement of particular objectives at risk.

### Basis for the Opinion

The **basis** for forming my opinion is as follows:

- An assessment of the design and operation of the underpinning Assurance Framework and supporting processes; and
- An assessment of the range of individual opinions arising from risk-based audit assignments contained within core internal audit risk-based plans that have been reported 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.

## 3. Commentary

The **commentary** below provides the context for my opinion and together with the opinion should be read in its entirety.

### The Design and Operation of the Assurance Framework and Associated Processes

#### Board Assurance Framework Review

The review consisted of an evaluation of the processes by which the Board obtains assurance on the effective management of significant risks relevant to the organisation's principal objectives.

Based on the work undertaken, we are satisfied that an Assurance Framework has been established which is designed and operating to meet the requirements of the 2013/2014 AGS and provides reasonable assurance that there is an effective system of internal control to manage the principal risks identified by the Trust.

Our overall assessment of governance arrangements resulted in a 'Substantial' assurance grading. We identified no high or medium recommendations. We raised four low priority recommendations as follows:

- It was recommended that the COO sign off high rated risks in 4risk to confirm that they have been reviewed and are happy that the risk is correctly scored as significant and either mitigated by controls in place or has been escalated appropriately.
- It was recommended that the ACOO's role and responsibilities should be added to the Risk Management Strategy.

- It was recommended that if no action owner is specified, the action lead should be input as a default to ensure that system reminder emails are received and followed up.
- It was recommended that monthly emails should be sent out communicating that risk owners are required to log on to 4risk and update and evidence the update to each risk they are responsible for and formalise a deadline to do this.

#### Conclusion

It is my opinion that we can provide Substantial Assurance that the Assurance Framework is sufficient to meet the requirements of the 2013/14 AGS and provide a reasonable assurance that there is an adequate and effective system of internal control to manage the significant risks identified by the Trust.

### 3. Commentary (continued)

**The Range of Individual Opinions Arising from Risk-Based Audit Assignments, contained within risk-based plans that have been reported throughout the year**

#### Planning

The Assurance Framework provides a high level governance framework to ensure that the key risk areas likely to impact the organisation's business objectives are controlled properly. We therefore use the Assurance Framework to drive our annual planning.

As part of the Risk Assessment that feeds into our planning, we use information contained in business plans, committee minutes, risk registers and the assurance framework, as well as interviewing directors and managers to aid our understanding of organisational processes.

No limitation of scope or coverage was placed upon our internal audit work.

Assurance Gradings	No. Reports	%
Full	-	-
Substantial	6	67%
Moderate	3	33%
Limited	-	-
Nil	-	-
<b>Total</b>	<b>9</b>	<b>100%</b>

The definitions relating to each level of assurance are set out at Appendix A.

#### Results of Internal Audit Work

My opinion also takes into account the range of individual opinions arising from our core internal audit work. Our core internal audit plan for 2013/14 was designed to provide you with independent assurance over systems of control across a range of financial and operational areas. Our core internal audit plan is risk based and has provided coverage of core internal audit work around key financial and operational controls.

As presented to the Audit Committee, our reports contain an overall opinion on the adequacy and effectiveness of the system reviewed, limited to the agreed scope. In addition, we provide a ranking for all recommendations made to provide an understanding of those issues that are of significant importance. We have taken these opinions from individual reports, together with our knowledge of the Trust in forming our overall annual Head of Internal Audit Opinion.

We have issued nine formal core internal audit reports (including IT General Controls) across the year designed to improve the system of internal control. Substantial assurance was provided in relation to seven reports and moderate assurance in relation to two reports.

Our cash management and budgetary control reviews, whilst not identifying significant control issues, did raise concerns about the Trust's outcomes in these areas. Our serious concerns over the potential consequences of the current and forecast financial position were formally communicated to the Chair of the Audit Committee. We highlight the potentially significant consequences of the Trust's financial position and acknowledge that the Trust is taking steps to address this.



### 3. Commentary (continued)

#### The Range of Individual Opinions Arising from Risk-Based Audit Assignments, contained within risk-based plans that have been reported throughout the year (continued)

##### Results of Internal Audit Work (continued)

As part of our internal audit programme, we also conducted a series of advisory assignments that were tailored to key areas of risk relating to Trust initiatives. These assignments were selected based on areas of risk identified from discussions with management.

We found that good progress had been made to ensure that structured frameworks were in place in these areas. For example, we completed a review of the Board Governance Memorandum (BGM) and found that whilst the BGM is still in the early stages of preparation, the Trust has established a process for the development of the BGM and has produced a draft document and evidence base which is structured substantially in line with the requirements of the BGM process. Gaps in evidence have been identified in the draft document with action plans in place to address them.

Four performance reviews identified high priority recommendations for improvements to the frameworks in place for some areas. These recommendations were identified in areas that management had already identified as high risk, demonstrating that management's risk assessment was in line with our identification of areas of weakness.

During the year good progress has been made in reviewing and following up outstanding internal audit recommendations and a significant number of recommendations from previous years have now been confirmed as completed. This focus on the implementation of recommendations needs to continue to ensure the Audit Committee is receiving adequate assurance that control weaknesses are being addressed.

##### Core Internal Audits - Overall Assurance

We have issued nine formal core internal audit reports across the year designed to improve the system of internal control. In the current year we issued reports on:

- |  |   |
|--|---|
| <ul style="list-style-type: none"> <li>• Assurance framework / risk management;</li> <li>• Budgetary control;</li> <li>• Cash management;</li> <li>• Debtors and income;</li> <li>• Creditors and payments;</li> </ul> | <ul style="list-style-type: none"> <li>• Sickness management;</li> <li>• Asset maintenance</li> <li>• Payroll; and</li> <li>• Computer based controls.</li> </ul> |
|--|---|

We provide individual assurance opinions for each core internal audit assignment. Substantial opinions were given in seven instances. Moderate opinions were given in two instances.

##### Performance Internal Audits - Overall Assurance

We completed performance reviews which included:

- Falls management
- Complaints
- Board Governance Memorandum – Pre Assessment
- PAS Change Management Support Outpatients Follow Up
- 18 week pathway

As a result of carrying out our 2013/14 Performance Internal Audit reviews, **whilst we have identified high priority recommendations in some areas we have not identified fundamental control weakness relating to governance, risk management or internal controls that impacts upon our overall HoIA opinion of significant assurance.**

## 3. Commentary (continued)

### Restriction of use and limitations

We wish to draw to your attention that this report may only be used in accordance with our contract and may not be made available to third parties, except as may be required by law.

Management should be aware that our internal audit work was performed according to Public Sector Internal Audit Standards (PSIAS) which are different from internal audits performed in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. Similarly, the assurance classifications provided in our internal audit report are not comparable with the International Standard on Assurance Engagements (ISAE 3000) issued by the International Audit and Assurance Standards Board.

Our internal audit testing was performed on a sample basis and focussed on the key controls mitigating risks. Internal audit testing is designed to assess the adequacy and effectiveness of key controls in operation at the time of an audit. Definitions of the assurance classifications and recommendation classifications used are provided in Appendix A.






### Acknowledgement

We would like to take this opportunity to formally record our thanks for the continued co-operation and support we have received from management and staff of the Trust during the year.

## Appendix A: Definitions of Assurance Levels

### Definition of Assurance Levels




We have five categories by which we classify internal audit assurance over the systems we examine - Full, Substantial, Moderate, Limited or Nil assurance which are defined as follows:

Assurance Level		Evaluation and Testing Conclusion
Full		The controls tested are being consistently applied. There is a sound system of internal control designed to achieve the system objectives.
Substantial		There is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk. While there is a basically sound system of internal control, there are weaknesses, which put some of the system objectives at risk.
Moderate		The level of non-compliance puts some system objectives at risk. There is a basically sound system of internal control for other system objectives.
Limited		The level of non-compliance puts the system objectives at risk. Weaknesses in the system of internal controls are such as to put the system objectives at risk.
Nil		Significant non-compliance with basic controls leaves the system open to error or abuse. Control is generally weak leaving the system open to significant error or abuse.

The assurance gradings provided here are not comparable with the International Standard on Assurance Engagements (ISAE 3000) issued by the International Audit and Assurance Standards Board and as such the grading of 'Full Assurance' does not imply that there are no risks to the stated control objectives.

### Grading of Recommendations

In order to assist management in using our reports, we categorise our recommendations according to their level of priority:

High		Recommendations which are fundamental to the system and upon which the organisation should take immediate action.
Medium		Recommendations which, although not fundamental to the system, provide scope for improvements to be made.
Low		Recommendations concerning issues which are considered to be of a minor nature, but which nevertheless need to be addressed.

## Appendix B: Statement of responsibility

We take responsibility for this report which is prepared on the basis of the limitations set out below.

The matters raised in this report are only those which came to our attention during the course of our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of internal audit work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices. We emphasise that the responsibility for a sound system of internal controls and the prevention and detection of fraud and other irregularities rests with management and work performed by internal audit should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify all circumstances of fraud or irregularity. Auditors, in conducting their work, are required to have regards to the possibility of fraud or irregularities. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud. Internal audit procedures are designed to focus on areas as identified by management as being of greatest risk and significance and as such we rely on management to provide us full access to their accounting records and transactions for the purposes of our audit work and to ensure the authenticity of these documents. Effective and timely implementation of our recommendations by management is important for the maintenance of a reliable internal control system.

**Deloitte LLP**  
**Birmingham**  
**April 2014**

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