

**Deloitte.**

Shrewsbury &  
Telford Hospital  
NHS Trust

Head of Internal  
Audit Opinion  
2015/16

26 May 2016

The Shrewsbury and  
Telford Hospital  
NHS Trust



# Contents

1.	Introduction	3
2.	The Head of Internal Audit Opinion	4
3.	Commentary	8
4.	Appendices	12

## Distribution List

### *For Action*

Accountable Officer

### *For Information*

Audit Committee

### *Auditors*

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

# 1. Introduction

## Purpose of report

Based on the work that Deloitte Internal Audit has undertaken in 2015/16, this report provides the Head of Internal Audit Opinion on the effectiveness of the system of internal control for Shrewsbury and Telford Hospital NHS Trust for the year ended 31 March 2016.

## 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.

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 2015/16, we issued eight core internal audit reports and two performance reports.

We issued substantial assurance ratings for four core internal audit reports. We issued moderate assurance ratings for the following three core internal audit reports:

- CQC follow up;
- Income and Debtors; and
- Budgetary Control.

We issued a limited assurance rating for the Information Technology Disaster Recovery and Business Continuity Planning (IT DRP & BCP) core internal audit report.

We draw your attention to the fact that we have raised one high priority recommendation in the CQC follow up internal audit. It was recommended that:

- Project management arrangements should be put in place following future CQC inspections to confirm that all actions are implemented, with an assurance programme to obtain clear evidence of implementation to pick up all incomplete actions and check that they are addressed.

We draw your attention to the fact that we have raised two high priority recommendations in the IT DRP & BCP internal audit:

- The Trust should document a plan that covers the implementation of the Trust's Business Continuity and Planning Policy and Strategy. This should include all applicable areas of the Trust. Progress against the plan should be reported to and monitored by senior management. This is a significant task and the Trust should confirm the adequacy of the resources able to support its completion.
- The adequacy of existing IT recovery arrangements should be assessed for each Trust service. This should include consideration of Recovery Time Objectives ("RTOs") and Recovery Point Objectives ("RPOs") that should be determined by each service as it considers its continuity requirements.

## 2. The Head of Internal Audit Opinion

### Overall Opinion – Core Internal Audit (continued)

Whilst the Trust has continued to develop and strengthen its control framework during 2015/16, there remains scope for improvement and the Trust should continue to strengthen controls in the areas of weakness identified by our work during 2015/16 as a priority. In delivering our 2016/17 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.

In 2013/14 we formally communicated our serious concerns over the potential consequences of the financial position of the Trust to the Chair of the Audit Committee. The Chair of the Audit Committee responded by sharing our concerns with the Trust Board and responding to confirm that the Board is very focussed on the need for the Trust to operate within its means whilst working with the wider health economy to consider options for a sustainable future.

In 2014/15 we highlighted the potentially significant consequences of the Trust's financial position whilst acknowledging that the Trust was taking steps to address this. We were pleased to note that the Trust obtained additional permanent funding during 2014/15, which led to an improvement in the Trust's financial position and cash flows, albeit with a recurring deficit forecast for future years.

At December 2015, the Trust had incurred a deficit of £13.5m against a planned deficit of £13.0m. The forecast year-end deficit was £19.0m against a planned full year deficit of £17.3m.

During 2015/16, the Trust has moved to higher level budget sign off to hold budgetary accountability at a more senior level. Care Groups agreed budgets with Finance and took internal responsibility for local budget management at a ward level. Nursing costs and agency expenditure have continued to be challenging due to recruitment difficulties.

The Trust, and the Shropshire health economy as a whole, continues to investigate options for long term financial sustainability through Future Fit.

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

### Overall Opinion – Performance Reviews

As part of our annual Internal Audit Plans, we also deliver a number of advisory and performance reviews. We carried out two performance reviews during 2015/16:

- Delayed Transfers of Care (DTC) review; and
- Governance: Future Fit review (Stage 1).

The DTC review included two high priority recommendations:

- **Prioritising Board Reporting** - It is recommended that the Fit to Transfer (F2T) list should be reviewed to ensure that it more accurately reflects the status of patients who have been assessed as delayed transfers of care (DTCs), the reasons for delays over time, and has responsible owners allocated to actions. Thematic analysis, which clearly defines internal and external delays, should be reported to the Board and external stakeholders, and used to resolve key issues within the local health economy.
- **Recording of delays** - For all reportable DTCs, the Discharge Liaison Team should check and ensure that the date that the patient was reported as medically fit for discharge (MFFD) on patient safety at a glance (PSAG) aligns with the medical notes and that appropriate members of the multi disciplinary team (MDT) are consulted prior to the decision being made. Ward staff should also take ownership in this regard.

The Governance: Future Fit (Stage 1) review included two high priority recommendations :

- **Clarity of objectives** - It is recommended that the original PEP for Future Fit be redistributed to all Trust Board members to ensure there is clarity over the objectives of the programme and what it is and is not designed to address.
- **Defining affordability** - It is recommended that discussions of affordability be escalated as a priority, and the programme should not be progressed to Outline Business Case (OBC) until “absolute” affordability has been determined.

Management has accepted the above recommendations and signed up to formal action plans to address the significant control weaknesses in this area.

### Overall Opinion

Whilst significant 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.

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

### Overall Opinion (continued)

My **overall opinion** for core internal audit in the year ended 31 March 2016 is that:

**Moderate assurance** can be given as there is a generally sound system of internal control, designed to meet the organisation's objectives, but the level of non-compliance in certain areas puts some system objectives at risk. There is a basically sound system of internal control for other system objectives. The weaknesses identified which put some system objectives at risk relate to CQC, Income & Debtors, Budgetary Control and IT Disaster Recovery and Business Continuity Planning .

**Significant** assurance has been given in relation to the Board Assurance Framework and risk management arrangements at the Trust.

### 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 Internal Audit

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 2015/16 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 in relation to the Board Assurance Framework. We identified no high or medium recommendations. We raised three low priority recommendations.

#### Conclusion

It is my opinion that we can provide Substantial Assurance that the Assurance Framework is sufficient to meet the requirements of the 2015/16 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	0	0%
Substantial	4	50%
Moderate	3	37.5%
Limited	1	12.5%
Nil	0	0%
<b>Total</b>	<b>8</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 2015/16 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 eight formal core internal audit reports across the year designed to improve the system of internal control. Substantial assurance was provided in relation to four reports, moderate assurance in relation to three reports and limited assurance in relation to one report.

## 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, including Governance of the Future Fit programme and the Discharge Management process.

One performance review identified two high priority recommendations for improvements to the frameworks in place for Delayed Transfers of Care. This recommendation was identified in an area that management had already identified as high risk, demonstrating that management's risk assessment was in line with our identification of areas of weakness.

The other performance review, regarding the Trust's governance arrangements regarding its participation, internal communication and decision making in the Future Fit programme, identified two high priority recommendations regarding the clarity of objectives and the affordability of the programme.

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

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

- Assurance framework / risk management;
- CQC Follow up;
- Cash Management;
- Income and Debtors;
- Payments and Creditors;
- Budgetary Control;
- Payroll; and
- IT Disaster Recovery and Business Continuity Planning.

We provide individual assurance opinions for each core internal audit assignment. Substantial opinions were given in four instances. Moderate opinions were given in three instances: in relation to the CQC Follow up, Income and Debtors and Budgetary Control audits. A limited assurance opinion was given following the IT Disaster Recovery Plan and Business Continuity Plan audit.

## 3. Commentary (continued)

### Performance Internal Audits – Overall Assurance

We completed two performance reviews which were:

- Delayed Transfers of Care (DTC) review; and
- Governance: Future Fit review (Stage 1).

As a result of carrying out our 2015/16 Performance Internal Audit reviews, high priority recommendations were identified in relation to both reviews. Whilst we have identified high priority recommendations in this area we have not identified fundamental control weakness relating to governance, risk management or internal controls that impacts upon our overall HoIA opinion.

### 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**  
**26 May 2016**

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