

Contents

1. Introduction	3
2. The Head of Internal Audit Opinion	4
3. Commentary	7
4. Appendices	11

Distribution List

For Action:

Accountable Officer

For Information

Audit Committee

Auditors

Gus Miah – Partner

Mo Ramzan – Engagement Manager

This report and the work connected therewith are subject to the Terms and Conditions of the contract dated 19 September 2016 between Shrewsbury and Telford Hospital NHS Trust and Deloitte LLP.

The report is produced solely for the use of the Trust for the purposes of internal audit work. Its contents should not be quoted or referred to in whole or in part without our written consent, except as required by law. Deloitte LLP will accept no duty or responsibility to any third party, as the report has not been prepared, and is not intended for any other purpose.

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

1. Introduction

Purpose of report

Based on the work that Deloitte Internal Audit has undertaken in 2016/17, 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 2017.

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.

Roles and responsibilities (continued)

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 assurance 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, arranged by:
 - Core Internal Audit Findings,
 - Performance Review Findings,
 - Core Internal Audit Opinion,
 - Board Assurance Framework and Risk Management overall Opinion,
 - Basis for the Opinion;
- Commentary.

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.

Overall Opinion – Core Internal Audit Findings

During 2016/17, we issued seven core internal audit reports and one performance report and we are pleased to note we issued Substantial assurance ratings with respect to four of the core internal audit reports.

We also issued three 'moderate' assurance ratings which we summarise below.

A moderate rating was given with respect to the **Income and Debtors** audit but no high priority recommendations were raised.

Procurement (Contracted Expenditure & Stores) – Moderate assurance with four high priority recommendations being made.

It was recommended that:

- All contracts should have appropriate authorisation prior to acceptance.
- All stock should be reviewed on a timely basis and discarded once the expiration date has been reached.
- All store rooms in public areas should be secured to prevent unauthorised access.
- A policy was observed as in place, relating to the ordering of stock on behalf of wards, which resulted in a significant breach of the SFIs. This policy should be amended so that wards being manually replenished at PRH sign up to a maximum, itemised, stock listing which has been approved by a member of the care group with appropriate authorisation.

2. The Head of Internal Audit Opinion

Overall Opinion – Core Internal Audit Findings

Computer based IT controls– Moderate assurance with two high priority recommendations being made.

It was recommended that:

- User access reviews should be performed across all users with access to the Oracle Financial system and the domain.
- Management should ensure that default domain administrative accounts are renamed and privileged level access is limited to IT personnel on a need to know basis. Third party access to the system should be appropriately restricted and monitored.

Overall Opinion – Core Internal Audit Findings

Whilst the Trust has continued to develop and strengthen its control framework during 2016/17, there remains scope for improvement and the Trust should continue to strengthen controls in the areas of weakness identified by our work during 2016/17 as a priority. In delivering our 2017/18 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 response to concerns and recommendations raised over the previous three years, management has taken positive action to improve the financial controls in relation to budgetary controls, cash, and cash management. However these continue to exist as areas of key pressure, and this is reflected by the Trust's challenging financial position.

For 2016/17, the Trust is reporting a year end deficit of £16.398m, which is in line with its £16.4m control total for the year. This is before STF income of £9.8m, resulting in a deficit of £6.6m after STF. The Trust has significantly underperformed against its CIP target for the year, the most significant part of this is relating to slippages in staff expenditure cost improvement plans.

For 2017/18, the Trust is forecasting a further deficit of £6.1m (after STF support funding and a DH Loan) and will again be challenged to deliver substantial CIP savings.

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

Overall Opinion – Performance Review Findings

As part of our annual internal audit plan, we also deliver a number of risk based advisory and performance reviews. We completed one performance review during 2016/17, Policy and Procedure Compliance in Maternity Services, which received a Moderate assurance rating and contained one high priority recommendation as follows:

Policy and Procedure Compliance in Maternity Services –

It was recommended that:

- Staff participating in RCA (Root Cause Analysis) meetings had not always received suitable training. The Trust should ensure that there is sufficient training available for staff, and the Care Group should have a record of which staff are RCA trained.

Management has accepted the above recommendation and signed up to a formal action plan to address the significant control weaknesses in this area.

Overall Opinions and Opinion Basis

As such, my overall opinion for the year ended 31 March 2017 is that:

Core Internal Audit Programme Opinion

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 Income & Debtors, Procurement (Contracted Expenditure & Stores), Policy and Procedure Compliance in Maternity Services, and Computer based IT controls.

Board Assurance Framework and Risk Management Opinion

Substantial assurance has been given in relation to the Board Assurance Framework and Risk Management arrangements at the Trust.

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. The Trust utilises an electronic Risk Management system for risks to be recorded, managed, escalated and reported at the appropriate organisational level. This means that local risks are centrally visible and exception reporting can be produced. A formalised risk moderation process further allows the Governance team to have greater control in managing risks and ensuring consistent scoring across the Trust.

The Trust has a Risk Management Policy which sets out the key processes for managing and reporting clinical and non-clinical risks affecting the Trust. The Operational Risk Group (ORG) is main committee for managing risk with all risks with a risk score of 15 or above and all risks with a risk consequence score of five are reviewed monthly. Risk profiling is completed quarterly and is monitored by the ORG where exceptions such as risks without action plans and controls are reported by department.

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 2016/17 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 four medium priority recommendations:

- The Board Assurance Framework was absent from Trust Board between the months of April and September 2016. Whilst it was presented to sub committees it should be discussed at Trust Board at least quarterly.
- We noted that significant operational risks were not presented to tier 2 committees. A *Priority List* of high risks is prepared monthly but only sent to Operational Risk Group and the Executive team. This list should also be presented to sub committees for review and challenge.
- A number of risks within the *4risk* Risk Management system had action plans missing, whilst others included actions which had not been updated. Risks should have appropriate action plans documented and continuously reviewed and updated within the system.
- We noted a number of deviations in working practice compared to the Risk Management Policy, including the level of reporting at Operational Risk Group (ORG) and action plan templates. The policy should be amended to reflect actual procedures followed.

Conclusion

It is my opinion that we can provide Substantial Assurance that the Assurance Framework is sufficient to meet the requirements of the 2016/17 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%
Substantial	4	50%
Moderate	4	50%
Limited	-	0%
Nil	-	0%
Total	8	100%

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

Results of Internal Audit Work

My opinion also takes into account the range of individual opinions arising from our core internal work. Our core internal audit plan for 2016/17 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 seven 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 and Moderate assurance in relation to the other three reports.

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.

Results of Internal Audit Work (continued)

As part of our internal audit programme, we also planned 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.

Due to operational pressures at the Trust we have not performed the Business and Continuity Planning, Outpatient Appointment Process, and Future Fit SOC / OBC performance reviews.

One performance review, which received a Moderate assurance rating, identified one high priority recommendation in relation to staff training. 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.

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

- Risk Management and Board Assurance Framework (BAF);
- Cash management;
- Income and debtors;
- Payments and creditors;
- Payroll;
- Procurement (Contracted Expenditure & Stores);
- Computer based IT controls.

We provide individual assurance opinions for each core internal audit assignment. Substantial opinions were given in four reports and Moderate assurance opinions were given in three reports: in relation to Procurement (Contracted Expenditure & Stores), Income and Debtors, and Computer based IT controls.

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.

Performance Internal Audits – Overall Assurance

We completed one performance review:

- Policy and Procedure compliance in Maternity Services.

A Moderate assurance rating was given for this report.

We can confirm that as a result of carrying out our 2016/17 Performance Internal Audit reviews, we have not identified any areas of control weakness relating to governance, Risk Management or internal controls that further impact upon our overall HoIA opinion of moderate assurance.

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.

Use of results 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 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 clarifications 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.

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 no assurance which are defined as follows:

Rating	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 systems 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.

Grading of Recommendations

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

Rating	Evaluation and Testing Conclusion
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 needs to be addressed.

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 'Full Assurance' does not imply that there are no risks to the stated control objectives.

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
23 May 2017

This document is confidential and prepared solely for your information. Therefore you should not, without our prior written consent, refer to or use our name or this document for any other purpose, disclose them or refer to them in any prospectus or other document, or make them available or communicate them to any other party. No other party is entitled to rely on our document for any purpose whatsoever and thus we accept no liability to any other party who is shown or gains access to this document.

Deloitte LLP is a limited liability partnership registered in England and Wales with registered number OC303675 and its registered office at 2 New Street Square, London EC4A 3BZ, United Kingdom.

Deloitte LLP is the United Kingdom member firm of Deloitte Touche Tohmatsu Limited ("DTTL"), a UK private company limited by guarantee, whose member firms are legally separate and independent entities. Please see www.deloitte.co.uk/about for a detailed description of the legal structure of DTTL and its member firms.

Member of Deloitte Touche Tohmatsu Limited



Other than as stated below, this document is confidential and prepared solely for your information and that of other beneficiaries of our advice listed in our engagement letter. Therefore you should not, refer to or use our name or this document for any other purpose, disclose them or refer to them in any prospectus or other document, or make them available or communicate them to any other party. If this document contains details of an arrangement that could result in a tax or National Insurance saving, no such conditions of confidentiality apply to the details of that arrangement (for example, for the purpose of discussion with tax authorities). In any event, no other party is entitled to rely on our document for any purpose whatsoever and thus we accept no liability to any other party who is shown or gains access to this document.

© 2017 Deloitte LLP. All rights reserved.

Deloitte LLP is a limited liability partnership registered in England and Wales with registered number OC303675 and its registered office at 2 New Street Square, London EC4A 3BZ, United Kingdom.

Deloitte LLP is the United Kingdom member firm of Deloitte Touche Tohmatsu Limited ("DTTL"), a UK private company limited by guarantee, whose member firms are legally separate and independent entities. Please see www.deloitte.co.uk/about for a detailed description of the legal structure of DTTL and its member firms.