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Shrewsbury and Telford Hospital NHS Trust

Head of Internal Audit Opinion

May 2019
For the Audit Committee on 24 May 2019

Contents

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Auditors
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1. Introduction

Purpose of report

Based on the work that Deloitte Internal Audit has undertaken in 2018/19, this report provides the Head of Internal Audit (HOIA) Opinion on the effectiveness of the system of internal control for Shrewsbury & Telford Hospital NHS Trust for the year ended 31 March 2019.

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 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.

The role of internal audit is to provide independent and objective assurance to the Accounting Officer on risk management, control and governance. The assurance given by internal audit is a key element of the framework of assurance, which the Accounting Officer needs to inform the completion of the Annual Governance Statement. Assurance from internal audit can, however, only be reasonable in the sense that no opinion or assurance can ever be absolute and is by definition an extrapolation of the evidence available. The internal audit assurance does not supersede the Accounting Officer's personal responsibility for risk management, control and governance.

As required by the Public Sector Internal Audit Standards (PSIAS), we confirm our independence as internal auditors from the Shrewsbury and Telford Hospital NHS Trust (the Trust). We also confirm compliance with the requirements of the PSIAS.

All assurance ratings should be considered by reference to Appendix A.

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.

This report is set out as follows:

- Core Internal Audit Opinions,
- Performance Review Opinions,
- Board Assurance Framework and Risk Management Opinion;
- Overall Opinions and Opinion Basis; and
- Commentary.

The **basis** for forming my overall opinions is as follows:

Overall Opinion – Core Internal Audit

- 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; and

Board Assurance Framework and Risk Management

- An assessment of the design and operation of the underpinning Board Assurance Framework and Risk Management supporting processes.

These assessments have taken account of the relative materiality of these areas and management's progress in respect of addressing control weaknesses.

Opinions Issued – Core Internal Audit

During 2018/19 we issued seven core internal audit reports, one Board Assurance Framework and Risk Management report, and two performance reports. We issued substantial assurance ratings with respect to two of the core internal audit reports, moderate assurance with respect to two of the core internal audit reports and the Board Assurance Framework and Risk Management report, and limited assurance with respect to three core internal audit reports.

Payroll – Substantial assurance with one high priority recommendation as follows;

- The monthly review of the Change Event Log and User Responsibility Profiles (URPs) is currently performed by the Workforce Systems Officer. The Workforce Systems Officer has access to create new staff assignments and to edit user access privileges within the ESR system. The Workforce Systems Officer performs a monthly review of all changes made to staff details. This presents a self review threat and it was recommended in the prior year review, that a senior second party should review those changes made by the Workforce Systems Officer. It was noted that this was not performed during the current financial year until October.

Budgetary Control – Limited assurance with three high priority recommendations being made as follows;

- At month 11, the Trust is reporting a deficit (excluding PSF) of £22.3m, which is significantly higher than the original plan and slightly above the revised plan deficit of £22.0m. The Trust agreed a revised outturn figure with NHSI in November 2018 of £24.0m. This is a £5.5m deterioration from the original control total agreed at the beginning of the year which would also have seen the Trust secure PSF funding to assist its financial position. This is mainly due to unachieved WRP targets and overspend on agency staffing.

Opinions Issued – Core Internal Audit (continued)

- The Trust has been subject to external scrutiny across a number of areas, culminating in it being placed in special measures by NHSI and receiving an 'inadequate' rating from the CQC. In responding to address the many challenges it faces ensuring appropriate governance around decision making and sufficient consideration of financial impact has not been evident in some instances. The Trust reported on additional expenditure commitments totalling £7.1m in November 2018 where decision making and approval was not clear in many cases.

- Our review identified a number of instances where in-year financial pressures could have been identified and addressed through a more robust approach to financial planning and budget setting. These included the Pathology managed service contract and the planned move of the fertility department to take it offsite resulting in £0.5m loss of income over a six week move period which had not been budgeted for.

Cash Management – Limited assurance with two high priority recommendations being made as follows;

- The month six cash flow forecast projected that without continued drawdown of loans from the DHSC the Trust's cash position would significantly deteriorate after January 2019, and it would be in breach of its £1.7m liquidity requirement by year end. This forecast did not include the additional impact of the Trust being placed in Special Measures, or the proposed overnight closure of the PRH A&E.

  It was recommended that the Trust closely monitors its current and forecast cash flow and liquidity requirements, with increased rigour and detailed scrutiny at both Board and operational levels. This challenge should be structured to ensure a clear strategy is communicated throughout the Trust with robust actions to prevent the Trust breaching its minimum cash balance requirement. This should include the identification of new sources of cash through additional income streams, as well as negotiations with the DHSC for further cash support.

- The Trust experienced a number of significant challenges during the year, including being placed in Special Measures by NHSI on 4 November 2018, these challenges are described in further detail on page 9.

  Due to these concerns, and the Trust's worsening financial position, it was recommended that the Trust continues to actively review its financial position and cash forecasting. A high level of communication is required with all commissioning parties and affected providers in the region, and the Trust should continue to identify all measures that can be taken to ensure the Trust has sufficient cash reserves to meet its ongoing obligations to pay staff and suppliers.

Income & Debtors – Moderate assurance with one high priority recommendation being made as follows;

- A high priority recommendation was raised in response to threats to income resulting from the escalating financial and quality concerns faced by the Trust. These are described in further detail on page 9.

  These areas continue to be a challenge for the Trust and robust action is required to ensure realistic and detailed plans are developed with sufficient budget holder engagement and ownership and subject to detailed scrutiny prior to Board approval.

Opinions Issued – Core Internal Audit (continued)

These developments were expected to have a significant impact on the Trust's income position, and on its forecast cash flow which already required additional income support from the DHSC prior to the Trust's Special Measures status. Shropshire CCG was noted as anticipating a reduced level of funding to the Trust as a result of the proposed overnight Princess Royal Hospital (PRH) A&E closure of £3.5m, and similar reductions to CCG income were expected from other key commissioners.

As A&E provides a key admission pathway into a wide range of clinical areas, it was expected that this closure would also result in further 'knock on' income losses, caused by the reduced patient inflow into other clinical areas within the Trust.

From discussion with the Head of Contracts and Performance it was highlighted that the closure of the PRH A&E will require revision to a number of existing commissioner contracts. A degree of uncertainty also existed in relation to how the additional costs resulting from the repatriation of SaTH patients from other providers will be allocated.

It was recommended that the Trust should continue to develop its revised plan in response to these emerging issues and maintain a high level of communication with relevant regulatory bodies, commissioners, and other affected healthcare providers in the region. Emphasis should be given to the identification of additional income streams, recovery of existing income now under threat, and prompt settlement of existing aged debtor balances to manage the risks to income and cash flow created by these developments.

Update: Following approval from the regulator, the Trust's programme of additional recruitment for middle grade doctors and nurses resulted in the planned overnight closure to be cancelled in November 2018. The ongoing sustainability of the PRH A&E staffing arrangements still presents a significant risk and will continue to receive ongoing focus from the Trust and NHSI.

Payments and Creditors – Substantial assurance with no high priority recommendations being made.

General IT Controls – Moderate assurance with no high priority recommendations being made.

Waste Reduction Programme – Limited assurance with five high priority recommendations being made as follows;

- The 2018/19 WRP programme was driven by the Trust's Operational Plan. However, operational planning was not finalised until February/March 2018. The key WRP schemes were not progressed until Q4/Q1 2018/19. This has impacted on the phasing of savings for the year, with significantly lower targets in Q1 and step change from Q2.

  We recommended that the development of WRP schemes should be progressed earlier in the year so that all schemes are fully developed and approved to support implementation from the start of the financial year.

- Whilst there was some recognition that operational engagement with the 2018/19 WRP was better than in the previous year, this varied across Care Groups. Involvement and buy-in from the whole organisation remains a high priority with further focus required to ensure there is sufficient clinical engagement and buy-in, which will be key to delivering sustainable WRPs.

  We recommended that the Trust should re-energise initiatives to secure meaningful operational and clinical engagement throughout the process in order to successfully achieve the WRP target.

- The 18/19 WRP process meant that schemes were being worked up in Q4. The subsequent PID (Project Initiation Documents) and QIA (Quality Impact Assessment) approval processes did not progress until June/July 2018. With a number of schemes not being approved and remaining formally unapproved at the time of the review, which was conducted in October 2018. The PID and QIA processes were also felt to be disjointed with separate consideration of approvals making it difficult for schemes to progress in an efficient manner.

  The PID and QIA processes should be undertaken in a timely manner and better aligned to ensure that schemes are considered for approval in time to allow decision making prior to the start of the financial year.

Opinions Issued – Core Internal Audit (continued)

- The phasing of WRP scheme delivery was planned for 5% of the target in Q1, and a step change from Q2 to deliver 95% of the target in the remainder of the year. This meant that shortfalls are not being confirmed until half way through the year with limited time for the Trust to take corrective action to address shortfalls in year should the step change not be achieved.

  We recommended that WRP scheme delivery should be phased earlier in the year, where possible, to enable non-delivery risks to be identified earlier with an opportunity to take corrective action which may address in year shortfalls.

- WRP reports have continued to highlight the potential shortfall from current schemes from month 1, with limited progress in addressing as at month 5. At month 5 the potential alternative schemes for addressing the waste reduction shortfall also showed limited progress.

  We recommended the Trust should ensure that WRP schemes included in the Plan are realistic and evidence based with clear success measures. Where schemes are not delivering early corrective action should be taken and followed through.

Opinions Issued – Performance Reviews

As part of our annual internal audit plan, we also deliver a number of risk based advisory and performance reviews. In discussion with management, these are focussed on areas identified as offering the greatest scope for improvement to maximise the benefit and learning for the Trust. We carried out two performance reviews during 2018/19. We issued a limited assurance rating in respect of the Complex Discharge Process, and Review of Actions and Learning from Never Events reports. These reports contained a total of thirteen high priority recommendations, which are laid out as follows:

Complex Discharge Process Review – Limited assurance with ten high priority recommendations issued.

These were raised in relation to:

- Improving the quality and consistency of collaboration with Social Services and associated record keeping;
- Obtaining final authorisation for and improving training relating to elements of the Trust's renewed Patient Choice policy;
- Due to changes in demand and the nature of patient transport needs, there is a need for the Trust to work with the CCG to review the suitability of current transport provision in time for the next contract renewal in 2020;
- Improving the mechanism for reporting of patient incidents where the complex discharge process did not work as it should by; forming an operational forum with the remit to;

  - address concerns over discharge and patient handover processes;

  - discuss incidents where patient discharges have not gone to plan; and

  - develop action plans accordingly.

Opinions Issued – Performance Reviews (continued)

- Improving the quality of Estimated Discharge Dates (EDDs) in order to enable Capacity Managers to plan more accurately for discharges the following day by:

  - Improving reporting of significant EDD variances to the Board and Urgent Care Meeting as a KPI; and

  - Providing refresher and induction training to current staff on the importance of setting realistic EDDs.

- Improving the embedding and effectiveness of the Red2Green patient flow initiative through more robust use of the Patient Status at a Glance (PSAG) tool to support the limited number of Red2Green trackers;
- Improving the utilisation of Capacity Managers at both PRH and RSH;
- Progressing decisions relating to the co-location of Integrated Discharge Teams (IDT) and assessing the needs of the PRH ID; and
- Two High Priority recommendations were raised to identify actions to increase the efficiency and effectiveness of discharge plans by;

  - implementing a system of criteria-led discharge; and

  - standardising discharge plan pathways.

Never Events – Limited assurance with three high priority recommendations issued.

These recommendations related to the areas of:

- The development of SMART actions as part of Root Cause Analysis (RCA) investigation findings, and strengthening the general process for review and sign off of RCA action plans.
- Completion of specific medication safety audits, improving staff understanding of Trust policies relating to the administration of these medications, and reviewing stock control processes to ensure compliance in all clinical areas.
- Ensuring procedures for site marking of patients are undertaken in line with Trust policy and that an audit of compliance with Association of Perioperative Practitioners (AfPP) standards is performed.

Opinions Issued – Board Assurance Framework and Risk Management

As part of our annual internal audit plan, we have delivered one report in relation to Board Assurance Framework and Risk Management .

Board Assurance Framework and Risk Management – Moderate assurance with one high priority recommendation made. For further information please see the Board Assurance Framework and Risk Management Review opinion on page 10.

Overall Opinion – Core Internal Audit, and Opinion Basis

The following table lists the core internal audit reports to have been issued in the year, along with the level of assurance issued and number of findings:

Report	Assurance	High Findings	Medium Findings	Low Findings
Cash Management	Limited	2	2	2
Income & Debtors	Moderate	1	2	1
Payments & Creditors	Substantial	0	2	0
Budgetary Control	Limited	3	5	1
Payroll	Substantial	1	2	2
IT Controls	Moderate	0	3	0
Waste Reduction Programme	Limited	5	8	0

In line with DHSC Interim Support Finance Guidance, the Trust is required to hold a minimum daily cash balance of two days operating expenses which equates to £1.7m and this was the balance held at 31 March 2018. The Trust's cash position is supported by Support Loans from the Department of Health and Social Care (DHSC). The year end forecast for 2018/19 at month 11 is £1.9m of cash, supported by a total of £23.0m of external cash funding received across the year. This was obtained through Revolving Working Capital draw down of £14.2m and separate DHSC loan facility funding to cover the non-achievement of PSF of £8.8m.

The Trust is forecasting a c.£24m deficit at year end (£23m post PSF), this is significantly higher than the planned post PSF Deficit of £8.6m and £5.5m higher than the Pre PSF Plan. The Trust year to date deficit at month 11 includes £7.5m overspend, split between pay and non-pay budgets. This overspend is partially mitigated by income over performance of £2.5m. The pay overspend is significantly linked to the non-achieved Waste Reduction Programme (WRP) savings.

In addition, on 8 November 2018 the Trust was placed into Special Measures status by NHSI. This was in response to a range of concerns including the Trust's overall financial sustainability, and also in reflection of the following developing issues:

- Staffing issues in emergency care and concerns about the impact on patient safety;
- The ongoing investigation into maternity deaths at PRH. The scope of this investigation was expanded in August 2018 to include over 100 cases;
- CQC concerns into patient safety in maternity and A&E, resulting in the Trust being rated as 'inadequate' overall in its report published in November 2018; and
- An expectation by NHSI that the Trust will not be able to continue to function effectively without external financial and operational support.

These developments are expected to have a significant impact on the Trust's income and its cash flow.

Based on the assurances given for the core reports issued, and the current financial position of the Trust, we have issued an overall opinion for the year of Limited.

The Design and Operation of the Assurance Framework and Associated Processes: Board Assurance Framework and Risk Management 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 2018/2019 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 '**Moderate**' assurance grading.

During the 2018/19 financial year the Trust has experienced significant challenge in a number of key areas, these are detailed on page 9. Due to these ongoing and emerging issues, there is a heightened need for effective risk management at Board and operational levels. This is delivered through the BAF, which is in turn informed by the Operational Risk Register (maintained through the 4Risk system).

As a result of the increased financial, operational, and workforce pressures across the Trust there has been a detrimental impact on care group level risk management. This has presented itself through an increased number of risks for which action plans have not been or cannot be progressed. This is evidenced by the number (increased by 27%) and profile of risks held within the 4Risk system between February 2018 and January 2019, as well as the results of our audit procedures discussed in our recommendations.

We identified one high priority recommendation:

- From our review of the Operational Risk Register, extracted in January 2019, and management's own risk monitoring reporting, we identified a number of concerns related to delays in the implementation of actions, or weaknesses in the documentation of actions within the 4Risk system. This included a number of exceptions for actions where the "to be implemented by" date had passed without progress or documented update, and risks with either no action plans or no controls or action plans.

  Our risk owner interviews indicated a view that many actions could not be progressed due to Trust-wide capacity constraints, such as limited capital and revenue funding, or workforce limitations, rather than due to inactivity in the risk management process itself.

  We also noted an increase in the overall number of risks held within the Trust risk register between 2017/18 and 2018/19, from 311 risks in February 2018 to 394 in January 2019.

  This increase in the number of High and Medium rated risks has had a negative impact on Risk Owners' ability to manage their growing portfolio of risks and actions. It has also impacted on the ability of ORG (Operational Risk Group) meetings to prioritise the growing number of High rated items with similar scores.

Whilst the Quarterly Risk Profile, presented at ORG, highlights High and Medium rated risks which do not have an action plan or where actions are overdue, the above results indicate a risk that:

- Completed actions may not be updated within the 4Risk system in an appropriate manner;

- Actions may not be implemented due to inconsistent risk management, or action 'due by' dates are unrealistic; and

- Actions may not be implemented due to a lack of Trust capacity, such as outstanding/ unavailable capital funding.

The Design and Operation of the Assurance Framework and Associated Processes: Board Assurance Framework and Risk Management Review (continued)

We identified three medium priority recommendations:

We identified a recommendation relating to the effectiveness of controls and risk scoring where, within our review of risks from the risk register, we noted:

- There was no progress between inherent and residual score;
- Responses of "No controls present" were noted within the 'Controls' field. Of these a smaller number also had different inherent and residual scores;
- No response was documented within the 'Controls' field, but different inherent and residual scores were noted.

  Where the residual score is the same as the inherent score this may suggest the controls in place may not be effective in mitigating the level of risk.

We identified a recommendation relating to risks overdue for review where, within our sample of 25 risks we noted:

- From a sample of 25 High rated risks, eight risks were identified as overdue for review between 28 and 128 days. Four further risks were noted as overdue between three and seven days.

  As 48% of the High rated risk sample was overdue for review there is a risk that insufficiently frequent review of risks may weaken the risk management process by causing delays in the update or delivery of key mitigating action plans.

We identified a recommendation relating to risk register oversight outside of ORG:

- Our interviews with risk owners identified concerns regarding the level of challenge and support available outside of the Operational Risk Group (ORG) process for risks that have been submitted onto the 4Risk system.
  As the risk governance function does not have the capacity, or responsibility, to provide a substantive review process across the full operational risk register, significant emphasis is placed on Risk Owners to ensure that risks are completed and documented appropriately.

  Although the ORG process provides strong challenge around High and Medium rated risks, there is a risk that where risk owners have not documented and updated their risks correctly, there may be little further challenge outside of ORG to ensure that these risks are managed appropriately.

It is my opinion that we can provide Moderate assurance that the Assurance Framework is sufficient to meet the requirements of the 2018/19 AGS and provide a Moderate assurance that there is an adequate and effective system of internal control to manage the significant risks identified by the Trust.

3. Commentary

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

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	2	20%
Moderate	3	30%
Limited	5	50%
Nil	-	0%
Total	10	

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

**This table includes the seven Core Internal Audit Reports, one Board Assurance Framework and Risk Management Report, and two Performance reports. For further detail please see pages 4 – 8.*

Results of Internal Audit Work - Summary

My opinion also takes into account the range of individual opinions arising from our core internal work. Our core internal audit plan for 2018/19 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 two reports, moderate assurance in relation to two reports and limited assurance in relation to three reports.

Moderate assurance was also provided in relation to the Board Assurance Framework and Risk Management report.

Results of Internal Audit Work - Summary (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.

The two performance reviews identified 13 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.

Results of Internal Audit Work - Implementation of Actions

From our programme of Internal Audit reviews, and our review of prior year recommendations, we have identified a need to enhance the effectiveness of the Trust's implementation of recommendations and action plans.

The Trust is undergoing a period of substantial operational and financial challenge, and the development and implementation of effective action plans should be prioritised to ensure improvements are sustainable. We have raised this matter with the Audit Committee and Management who fully acknowledge this as a priority action.

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:

- Cash Management;
- Income and Debtors;
- Payments and Creditors;
- Budgetary Control;
- Payroll;
- Computer Based IT controls; and
- Waste Reduction Programme (WRP).

We provide individual assurance opinions for each core internal audit assignment. Substantial assurance was given in two reports, moderate assurance in two reports and limited assurance in three reports.

Board Assurance Framework and Risk Management – Overall Assurance

We have issued one internal audit report relating to Board Assurance Framework and Risk Management. A moderate assurance rating was issued in respect of this report.

Performance Internal Audits

We completed two performance reviews across 2018/19, these were:

- Complex Discharge Process; and
- Review of Actions and Learning from Never Events reports.

We can confirm that as a result of carrying out our 2018/19 Performance Internal Audit reviews, we have not identified any additional areas of control weakness relating to governance, risk management or internal controls that 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
16 May 2019

Deloitte.