Statement on Internal Control 2009/10

1. Scope of responsibility

The Board is accountable for internal control. As Accountable Officer, and Chief Executive of this Board, I have responsibility for maintaining a sound system of internal control that supports the achievement of the organisation's policies, aims and objectives. I also have responsibility for safeguarding the public funds and the organisation's assets for which I am personally responsible as set out in the Accountable Officer Memorandum.

With regard to the accountability arrangements for the Trust, the following routine meetings are attended by the Chief Executive and/or Directors:

Internal Reporting –

- Weekly Executive Directors Group meetings
- Monthly performance meetings with the Director of Finance and Director of Operations with General Managers
- Monthly Finance & Performance Committee meetings
- Monthly Capital Committee meetings
- Monthly Clinical Services Executive Committee meetings
- Routine Board meetings, at least seven times a year

External reporting -

- Monthly meetings held with the South West Strategic Health Authority and all Strategic Health Authority Chief Executives
- Regular meetings held with the Director of Finance at the South West Strategic Health Authority attended by the Director of Finance and Performance
- Monthly meetings held between Chief Executive and the senior team from the Trust and the Chief Executive and the senior team from the Devon Primary Care Trust.

Stakeholder Reporting -

- Membership of the North Devon Way Forward Group
- Membership of the North Devon and the Torridge Local Strategic Partnerships
- Attendance at the LINks meetings and the Overview and Scrutiny Committee when required
- Additionally, the Trust Executive Team have attended Devon Health Community meetings when they have been convened

2. The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to:

- identify and prioritise the risks to the achievement of the organisation's policies, aims and objectives,
- evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The system of internal control has been in place in Northern Devon Healthcare NHS Trust for the year ended 31 March 2010 and up to the date of approval of the annual report and accounts.

In making this statement, reference must also be made to the action plans derived from the self-assessment of the relevant Core Standards for Better Health, the self-assessment for the Auditor's Local Evaluation and the Head of Internal Audit opinion on the effectiveness of the organisation's internal control systems and financial governance.

3. Capacity to handle risk

The Board and Senior Management are committed to risk management, as this is an integral part of achieving the Trust's objectives and of being accountable to the public.

The Chief Executive has overall responsibility for risk management within the Trust. The Director of Finance and Performance has been nominated as the lead Director for risk management. Each Director has responsibility for leading and reporting on the risk management plans for risks identified within their directorates. The Directors are accountable to the Chief Executive in this role.

The line management and professional structures within the Trust ensure that responsibility for the implementation of risk management procedures and control of risks are in line with the scheme of delegation for their areas of responsibility. Support is provided by members of the Corporate Affairs Team to enable staff to identify and assess risks and to develop action plans to manage them. The Trust's risk management arrangements have been embedded throughout the organisation, resulting in shared good practice.

Statutory Health and Safety training is provided to all staff. Generic risk assessment training is provided to the relevant staff. Further risk management training, such as managing the corporate risk register and the Principal Risk and Assurance Register, is targeted to the appropriate staff. This has enabled staff to manage risk in a way appropriate to their authority and duties. Training will continue to be provided over the next year.

The Risk Management Strategy was reviewed in order to reflect the developments in risk management throughout the year. The Risk Management Strategy was presented to the Trust Board in January 2010 and was approved.

4. The risk and control framework

The Risk Management Strategy includes the following:

- Details of the aims and objectives for Risk Management in the organisation
- A description of the relationships between various Committees with a role in risk management
- Descriptions of the responsibilities of all levels of management and their levels of authority in respect of managing risk and operating a suitable system of internal control
- Summaries of the role of key individuals with responsibility for advising on and co-ordinating risk management activities
- A description of the tools that the organisation uses to review risk management performance and for gaining assurance about the management of risk
- The definitions of risk management, risk and other key terms
- Guidance on what is an acceptable risk to the organisation

It also includes a description of the whole risk management process and requires all risk to be recorded, when identified, in a standard format risk register and prioritised using a standard scoring methodology. Risk registers, both local and corporate, are in place throughout the organisation.

The Risk Management Strategy clearly states that it is the responsibility of all staff to identify risks and communicate those risks to the most appropriate person and/or committee. The Trust's risk management arrangements ensure that all identified risks are assessed and validated and that actions are agreed to mitigate, minimise or accept the risk. Risks are performance monitored and reviewed at regular intervals and the management of the risk may be challenged at any stage.

The Risk Management Committee was established in December 2006 to monitor and manage both clinical and non-clinical risks. Minutes of the Risk Management Committee meetings are presented to the Audit and Assurance Committee and the Clinical Governance Committee for information.

The role of the Audit and Assurance Committee has been expanded to monitor the management of high-scoring risks and to approve the management of the Principal Risk and Assurance Register. High-level clinical risks are monitored by the Clinical Governance Committee. The Terms of Reference of these two Committees have been amended to reflect these changes.

During 2009-10, the processes for populating the Trust's Corporate Risk Register have been further refined. All identified risks are entered onto the Corporate Risk Register, with supporting action plans to mitigate the risk. A robust system for validating the risk assessments and their scores and for performance monitoring the progress of the action plans has been put in place, supported by the Risk and Incident Manager. Routine reports of new risks, exception reports and those risks that have been accepted are presented to the Risk Management Committee on a monthly basis for discussion and challenge.

The reporting schedule of risks has been reviewed to ensure the appropriate level of detail is presented to the relevant committees.

The Assurance Framework is monitored by the Audit and Assurance Committee. Key elements of the Assurance Framework are:

- Principal objectives
- Principal risks
- Key Controls
- Assurances on Controls
- Gaps in Assurance
- Gaps in Control

In formulating the Assurance Framework, the Board has reviewed its strategic objectives. In 2006-07, the strategic objectives reflected the Standards for Better Health. Following the development of the Trust's Service and Estates Strategies, the strategic objectives have been reviewed on an annual basis to reflect the organisation's strategic direction. The Trust's aim, vision and reviewed strategic objectives were approved by the Board in July 2009. The strategic objectives are used to confirm the Board agenda. The purpose of the Assurance Framework is to document the above and is used to examine the level of assurance on the effective operation of controls.

High scoring risks, i.e. with scores of 15 or more, recorded on the Corporate Risk Register are discussed at the Risk Management Committee to assess if they represent an example of a strategic organisation-wide risk. These risks are recorded on the Principal Risk and Assurance Register, together with a description of existing controls and related assurances and any gaps. Where gaps have been identified, action is agreed to manage the gaps and the information is set out in the Principal Risk Action Plan. This is presented to the Executive Directors Group, the Audit and Assurance Committee and the Trust Board for information. The Principal Risk and Assurance Register is monitored by the Audit and Assurance Committee and presented to the Trust Board for approval twice a year.

The reporting schedule of the Principal Risk and Assurance Register has been reviewed to ensure the appropriate level of detail is presented to the relevant committees.

The Assurance Framework clearly states that the context for risk management should incorporate consideration of the organisation's stakeholders, including:

- Patients
- Public interests
- Service user interests
- Ministers and the Department of Health
- Wider societal interests

- Risk aspects of relationships inside and outside of the NHS, including key suppliers of goods and services to incorporate:
    - Ways in which the behaviour of "partners" affects the Trust
    - Ways in which the behaviour of the Trusts affects the" partners"
    - The risk priorities of "partners"

Control measures are in place to ensure that all the organisation's obligations under equality, diversity and human rights legislation are complied with. For example, as part of the Trust's ongoing work on the development and management of procedural documents, Screening Equality Impact Assessments are undertaken for all policy documents. The Executive Summary sheets presented with Trust Board reports, as well as those of the Board's sub-committees, include a section on Equality and Diversity implications. Where a significant adverse impact is identified, a Full Equality Diversity Assessment form is completed together with an action plan and consultation plan.

As an employer with staff entitled to membership of the NHS Pension scheme, control measures are in place to ensure all employer obligations contained within the Scheme regulations are complied with. This includes ensuring that deductions from salary, employer's contributions and payments in to the Scheme are in accordance with the Scheme rules, and that member Pension Scheme records are accurately updated in accordance with the timescales detailed in the Regulations.

The Trust has undertaken risk assessments and Carbon Reduction Delivery Plans are in place in accordance with emergency preparedness and civil contingency requirements, as based on UKCIP 2009 weather projects, to ensure that the organisation's obligations under the Climate Change Act and the Adaptation Reporting requirements are complied with.

The Trust is fully compliant with the core standards for better health.

The Trust registered its locations, service types, regulated activities and a named manager for each location within the deadline set by the Care Quality Commission. The Trust received confirmation that the Trust had been successfully registered without any location or service specific conditions.

With regard to risks to information, the Trust recognises the need for an appropriate balance between openness and confidentiality in the management and use of information. Information is a vital asset, both in terms of the clinical management of individual patients and the effective control of services and resources. It plays a major part in clinical governance, service planning and performance management. Control measures have been put in place to ensure information is appropriately managed, and policies, clear procedures and accountability provide a robust governance framework for information management. These include controls to ensure confidentiality and appropriate security arrangements to safeguard personal information about patients, staff and commercially sensitive information. Other control measures ensure adherence to the requirements of the Freedom of Information Act and Information Governance toolkit and controlled sharing of information with other agencies and health organisations through appropriate information-sharing protocols.

No serious untoward data security incidents have been reported.

There was a significant increase in incidents of Norovirus in the North Devon health community during Quarter 4 compared to the previous year. As a consequence, the number of closed beds was high over an extended period which resulted in pressure on bed availability. The Trust therefore opened the winter pressure beds in accordance with the Winter Pressure Plans. However, there were frequent occasions when the lack of beds could not be off-set resulting in cancelled elective operations and delayed admissions from A&E.

In advance of the Care Quality Commission's publication of the periodic review indicator compliance for 2009/10, the Trust's local analysis indicates potential under-achievement for the following indicators:

- Cancelled operations – adverse weather conditions in January 2010 resulted in a high number of cancelled operations. In addition, throughout the winter period, there were significant bed closures due to Norovirus infections, particularly in Quarter 4. This had a knock-on effect on A&E waiting times.
- A&E waiting times – in 2009/10, levels of emergency demand have been higher than forecast plans throughout much of the year.
- Delayed transfer of care - contributory factors include Local Authority funding constraints and high demand.

- Cancer 62 day urgent referrals – Around 75% of the breaches were due to the complexity of diagnostic pathways, patient choice in outpatient and at the diagnostic stage and medical suspension.
- Quality of stroke care - contributory factors include demand, capacity and high levels of general emergency admissions.
- Smoking during pregnancy – it is projected that the Trust may under achieve by 1 – 2%.

Achievement of the indicators has been monitored by the Trust throughout the year via:

- Monthly Directorate Performance meetings
- Monthly Finance & Performance Committee meetings
- Routine reports to the Trust Board

Where potential under-achievement has been identified, action plans have been developed, implemented and monitored as part of the monthly monitoring arrangements to reduce the impact.

The other periodic review indicators are currently expected to be achieved, pending further feedback from the Care Quality Commission. The Trust continues to undertake robust internal performance monitoring in accordance with the organisation's Performance Management Framework.

5. Review of effectiveness

As Accountable Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review is informed in a number of ways. The head of internal audit provides me with an opinion on the overall arrangements for gaining assurance through the Assurance Framework and on the controls reviewed as part of the internal audit work. Executive managers within the organisation who have responsibility for the development and maintenance of the system of internal control provide me with assurance. The Assurance Framework itself provides me with evidence that the effectiveness of controls that manage the risks to the organisation achieving its principal objectives have been reviewed and are effective.

My review has also been informed by:

- Audit Commission reports
- Internal Audit reports
- Standards for Better Health assessment of the core and developmental standards
- Auditor's Local Evaluation assessment
- Healthcare Commission Reviews
- Internal management reports

I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Risk Management Committee, the Clinical Governance Committee, the Audit and Assurance Committee, the Clinical Services Executive Committee, the Finance and Performance Committee and the Trust Board. The system is subjected to ongoing review to ensure continuous improvement of the system.

The main mechanism for this is the Assurance Framework and the agreed supporting committee and reporting structures that have been in place from August 2006. The Terms of Reference for the key committees are reviewed on an annual basis to reflect any changes in organisational structure.

- The Board receives the following reports that provide it with assurance on how the controls within the organisation are working:
    - Reports from other committees of the organisation
    - Reports from Executive Directors and key managers
    - Reports from external reviewers, when received
- The Audit and Assurance Committee receives reports from Internal and External Audit on the work conducted by them during the year

- Minutes from the relevant committees, e.g. Audit and Assurance Committee, are presented to the Board to note
- Executive Directors and key managers may present reports to the Board to note or to approve
- The Director of Internal Audit has provided a Head of Internal Audit Opinion commenting on the current status of the Assurance Framework and the effectiveness of the Systems of Internal Control reviewed by Internal Audit. This has been used to aid in the preparation of this Statement.
- The reporting structure described in the Assurance Framework is used to monitor the systems of internal control and make reports to the Board
- The Assurance Framework is independently reviewed by Internal Audit on an annual basis
- Due to the Trust's previous good performance for the Auditors Local Evaluation assessment, the Audit Commission has assessed the Trust against a number of triggers to be assured that performance has been maintained. The Audit Commission has received the necessary assurance and have recommended no change to the overall ALE score.
- The Trust has completed the declaration for Standards for Better Health in November 2009.
- The Trust registered its locations, service types, regulated activities and a named manager for each location within the deadline set by the Care Quality Commission. The Trust received confirmation that the Trust had been successfully registered without any location or service specific conditions.

Issues of Significant Internal Control identified by the Executive Directors will be reported immediately to the Chief Executive. Reports will also be made to the next Executive Group meeting, to the next Board meeting and to the next Risk Management Committee meeting. If required, the issue will be escalated to the relevant group, e.g. Audit and Assurance Committee or Clinical Governance Committee.

Disclosure of a significant internal control issue may contain a description of the weakness and its impact to provide context for the actions taken to manage it. In such cases, the Trust may exercise discretion when disclosing a significant internal control issue in order to avoid further adverse impacts or exploitation of the weakness.

Financial Recovery

The financial plan for 2009/10 was to continue to achieve breakeven at an operational level.

There was no additional funding planned as the historic deficit had been eliminated and the Trust was in good financial health.

During 2009/10, the Trust has successfully treated significantly more patients than were planned whilst continuing to achieve its statutory breakeven financial duty as detailed in note 39.1 of the accounts.

The following controls remained in place regarding reporting of financial and operational performance:

- Monthly reports to the Finance & Performance Committee
- Routine reports to the Trust Board as part of the Performance Report
- Monthly reports to the Clinical Services Executive Committee
- Monthly directorate performance reviews held with the Director of Finance and Director of Operations

2009/10 is also the first year that the Trust has had to prepare its accounts and report financial performance under International Financial Reporting Standards (IFRS). The Trust had a project plan to achieve the IFRS re-statement exercise that has been subject to successful review by the Audit Commission.

The Trust had detailed plans in place to deliver its financial objectives in 2010/11 and will continue to monitor delivery to the same methodology and control as detailed above which ensures the Directors, the Board and the Strategic Health Authority are assured that recovery remains on track, or that remedial action is taken immediately, to ensure that the planned financial position is achieved.

All risks to delivery are reported and scored for input to local and Corporate Risk Registers as required.

Details of financial performance in 2009/10 and the 2010/11 financial plan are included in the Operating and Financial review that forms part of the Trust's Annual Report.

Standards for Better Health

The Trust was required to produce mid-year declaration regarding compliance with the Care Quality Commission's Standards for Better Health covering the period 1st April 2009 to 31st March 2010. The Trust declared full compliance with all of the standards.

The results of the Annual Healthcheck for 2008/09 were a disappointment for Northern Devon Healthcare NHS Trust. The Trust had worked extremely hard to improve the position from its 2007/08 rating of 'Good' for Quality of Services and 'Fair' for Use of Resources. Despite the achievements in all other areas, a technical problem occurred when reporting the Trust's position to the Care Quality Commission. As a result, some performance data was not transferred and loaded correctly onto the central system. Other Trusts in the South West had experienced similar problems.

The Trust made three appeals to the Care Quality Commission on the grounds of extenuating circumstances in the following areas: Maternity, data transfer and upload. However, the appeals were not upheld. Therefore, the Trust did not receive the 'Excellent' rating it was expecting.

The 2008/09 declaration resulted in the Trust being assessed as 'Fair' for the quality of services and 'Good' for Use of Resources.

Jac Kelly

Chief Executive