

# Head of Internal Audit:

## Opinion on the effectiveness of the system of Internal Control at Northern Devon Healthcare NHS Trust for the year ended 31 March 2010

### *Roles and responsibilities*

The whole Board of Directors 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 Statement on Internal Control (SIC) is an annual statement by the Accountable Officer, on behalf of the Board of Directors, 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 policies, aims and objectives;
- 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;
- 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 SIC 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 and Assurance Committee, which should provide a reasonable level of assurance, subject to the inherent limitations described below.

The opinion does not imply that Internal Audit have 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 of Directors takes into account in making its Statement on Internal Control.

### *The Head of Internal Audit Opinion*

The purpose of my annual HoIA Opinion is to contribute to the assurances available to the Accountable Officer and the Board of Directors which underpin the Board of Directors' own assessment of the effectiveness of the organisation's system of internal control. This Opinion will in turn assist the Board of Directors in the completion of its Statement on Internal Control, and may also be taken into account by the Healthcare Commission in relation to the Standards for Better Health.

My opinion is set out as follows:

1. Overall opinion;
2. Basis for the opinion;
3. Commentary.

My **overall opinion** is that

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

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

1. An assessment of the design and operation of the underpinning Assurance Framework and supporting processes;
2. An assessment of the range of individual opinions arising from risk-based audit assignments contained within 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. An assessment of the process by which the organisation has arrived at its declaration in respect of the Standards for Better Health; and
4. Any reliance that is being placed upon third party assurances.

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

Internal Audit's work has been taken forward in three broad categories. The following summarises the opinions and assurances from the reviews undertaken in these areas.

## *Assurance Framework - Corporate Governance and Risk Management*

Internal Audit have completed reviews on the following Assurance Framework areas of the Trust:

Audit	Reported Assurance Rating	Reported Impact Rating
Assurance Framework	Amber	Medium
Risk Management – Corporate Arrangements	Green	Medium
Risk Management	Green	Low
CQC Readiness	Green	Low

### **Assurance Framework:**

Internal Audit have reviewed the design and operation of the Assurance Framework/Principal Risk and Assurance Register and associated processes within the Trust over the course of the year. This work focused on reviewing the Principle Risk and Assurance Register document and how this has evolved during the year, whether it complies with Department of Health guidance and if the Trust Board is actually using the framework as an active tool.

Our overall opinion is that the Principle Risk and Assurance Register document has been developed in line with Department of Health guidelines. However there is scope to further improve the process through ensuring better clarity in the reference to the Trusts current strategic objectives throughout the document and in it being presented and reviewed by the Board on a more regular basis throughout the year.

### **Risk Management:**

Revised Risk Management arrangements were put in place in November 2009 reflecting the Trust's requirement for long term support in providing business continuity planning resource, while ensuring that there are robust risk management processes in place for the year. We have undertaken two reviews of risk management arrangements during the year, as follows:

- An initial high level review of risk management arrangements concluded that robust monitoring arrangements were in place for those risks which were predicted to have the greatest impact on the Trust during 2009/10. We noted that lower level risks were to be reviewed to ensure that they were correctly scored (thereby ensuring that no high risks are missed) and then entered onto Datix where they will then be monitored by the Directorates. We concluded that policies are robust and will provide the Trust with an appropriate risk management framework for the future.

- A second, more detailed review was undertaken in March 2010, concluded that, overall, positive assurance can be provided that risk management at both corporate and operational level is visible and well managed. At the time of the review, the operational process surrounding lower level risks was being rolled out. We intend to undertake a further brief review early in 2010/11 to provide further assurance that all processes are operating correctly.

## Standards for Better Health / Care Quality Commission (CQC) Readiness:

The Trust has monitored its Standards for Better Health compliance throughout the year, leading up to the mid year declaration of compliance. Ongoing reporting has taken place via the Audit and Assurance Committee and to the Board, with a fully compliant mid year declaration being made. Following agreement with the Trust, and given the positive assurance previously given, we have not undertaken any specific audit work around the Trust's declaration of compliance. Audit attention has, instead, focussed on the arrangements being put in place around readiness for the Care Quality Commission registration requirements.

In order to conclude on the Trust's CQC regulatory framework readiness, Audit assessed the Trust in relation to engagement, governance and reporting arrangements and the CQC process itself. This review was conducted to provide assurance that the Trust is doing its reasonable best to enable an informed decision to be made about the registration to the new CQC regulatory framework.

Our initial review concluded that the Trust had made considerable progress in developing a good process in relation to the CQC registration requirements. Subsequent audit work of the detailed monitoring arrangements being put in place is being completed at the date of this opinion. This work, though not complete, indicates that robust and effective arrangements are being put in place.

We have, however, highlighted the fundamental impact of the CQC registration requirements on core business. This has been recognised by the Trust and will be subject to ongoing development during 2010-2011.

## Financial Assurance

Internal Audit have completed reviews on the following financial areas of the Trust:

Audit	Reported Assurance Rating	Reported Impact Rating
Financial Balance/CRES Stage 1	Amber	Medium
Financial Balance/CRES Stage 2	Green	Medium
Debtors/Income System	Amber	Low
Payroll	Amber	Low
Ledger to Board Reporting	Green	Medium
Charitable Funds	Green	Low
Creditors	Green	Low
Cash & Bank	Green	Low
Budget Setting Process	Green	Low
Provider Contract Income	Green	Medium

Audit work has been undertaken during the year on the core financial systems of the Trust, in line with the requirements of International Auditing Standards to meet the requirements of the Trust's external auditors, the Audit Commission. Although not all these audits have been finalised at the date of this statement, we have concluded overall, that the current systems in place represent a low risk to the Trust and that **positive assurance** can be provided that the systems in place are operating satisfactorily.

Our initial audit work on financial balance / cash releasing efficiency savings (CRES) highlighted that the overall process for identifying and monitoring the 2009/10 CRES programme was appropriate.

This initial review of CRES identified that, at the time of the audit, there was a shortfall in the plans to deliver the required savings target of £262k (4% of total required). There were also a number of high risk projects within the scheme which were unlikely to deliver the required savings. We recommended that these should be covered by additional savings as soon as possible to enable the Trust to deliver a breakeven year end position.

We also noted that improvements could be made around the consistent scoring of risk to ensure that management are able to understand the potential pressure within the schemes and areas of management focus that are needed to ensure delivery of the programme.

A further review of CRES schemes, undertaken during the final quarter of the year, identified that the financial reporting process is robust. We reported that although the Trust was forecasting to deliver a year end breakeven position this had been primarily achieved through income from additional activity rather than through specific CRES schemes. We recommended that the Trust should place additional emphasis on developing specific CRES projects in the future and that there was scope to further develop the risk assessment of CRES schemes.

## Corporate Assurance

**Internal Audit completed reviews on the following corporate areas of the Trust:**

Audit	Reported Assurance Rating	Reported Impact Rating
Information Governance	Amber	Medium
Medical Equipment Management	Amber	Low
Induction and Training	Amber	Medium
Ilfracombe Hospital	Amber	Low
Freedom of Information	Amber	Low
Nutrition	Amber	Medium
Nutrition – Follow Up Review	Green	Low
Management of Referrals	Green	Low
Performance Management	Green	Low
Management of Absence	Green	Low
Torrington Hospital	Amber	Low
Medicines Management	Green	Low

We have conducted a number of reviews in relation to the corporate systems of internal control of the Trust. These reviews concluded that the current systems in place represent an amber or green assurance rating to the Trust. No audit reviews have been assessed as red – or having a potentially high impact on the ability of the Trust to meet its objectives.

In respect of the reviews noted above, recommendations have been agreed with management to address gaps in controls and assurance. Internal audit has monitored the status of these recommendations (and recommendations carried forward from 2008/2009) over the year working proactively with the Audit and Assurance Committee to identify and follow up any outstanding matters.

No fundamental matters have been brought to the Trust's attention in respect of these matters above. However, closure of these audits requires management action to agreed recommendations. The issues raised are not considered to be significant and have been taken into account in the formulation of this opinion.

In addition to the reviews noted above, at the date of this opinion a number of audits are being completed, as follows:

### **Audits at draft report stage:**

- SLA's / Partnership Arrangements;
- Sick Pay;
- Estates Productivity Review;
- Complaints;
- Accommodation;
- Medical Recruitment; and
- Barnstaple Health Centre.

### **Audits in progress:**

- ESR Data Quality;
- Electronic Care Records System;
- Patient and Public Involvement (PPI);
- E-Rostering; and
- Security Arrangements.

Whilst a small number of control issues and recommendations may be reported as a result of these reviews I do not envisage any fundamental matters that may impact upon this opinion statement at this time.



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