

<b>To:</b>	<b>AUDIT COMMITTEE / TRUST BOARD</b>
<b>From:</b>	Director of Corporate and Legal Affairs
<b>Date:</b>	<b>31 May 2011 and 2 June 2011</b>
<b>CQC regulation:</b>	ALL

<b>Title:</b>	<b>DRAFT STATEMENT ON INTERNAL CONTROL 2010/11</b>				
<b>Author/Responsible Director:</b>					
Director of Corporate and Legal Affairs					
<b>Purpose of the Report:</b>					
The Committee is invited to review the draft Statement on Internal Control 2010/11 attached at appendix A ahead of its consideration by the Trust Board on 2 June 2011.					
Subject to the outcome of the review of the draft Statement by the Audit Committee on 31 May 2011, the Trust Board will be invited to approve the Statement at its meeting on 2 June 2011.					
<b>The Report is provided to the Committee/Board for:</b>					
Decision		√	Discussion		√
Assurance		√	Endorsement		√
<b>Summary / Key Points:</b>					
The Statement on Internal Control is a public accountability document that describes the effectiveness of internal control in an organisation and is personally signed by the Accountable Officer on behalf of the Trust Board.					
<b>Recommendations:</b>					
To approve the Statement on Internal Control 2010/11.					
<b>Previously considered at another corporate UHL Committee ?</b>					
Yes – Audit Committee 31 May 2011					
<b>Strategic Risk Register</b>			<b>Performance KPIs year to date</b>		
N/A			N/A		
<b>Resource Implications (eg Financial, HR)</b>					
N/A					
<b>Assurance Implications</b>					
To provide assurance on the effectiveness of internal control.					
<b>Patient and Public Involvement (PPI) Implications</b>					
The Statement is a public accountability document.					
<b>Equality Impact</b> N/A					

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Information exempt from Disclosure N/A
Requirement for further review ? Annually.

## **UNIVERSITY HOSPITALS OF LEICESTER NHS TRUST**

**REPORT TO:           AUDIT COMMITTEE/TRUST BOARD**

**DATE:                 31 MAY AND 2 JUNE 2011**

**REPORT BY:         DIRECTOR OF CORPORATE AND LEGAL AFFAIRS**

**SUBJECT:            DRAFT STATEMENT ON INTERNAL CONTROL 2010/11**

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1. NHS bodies are required to produce a Statement on Internal Control to accompany their annual accounts in line with NHS Finance Manual requirements.
2. The Statement on Internal Control is a public accountability document that describes the effectiveness of internal control in an organisation and is personally signed by the Accountable Officer on behalf of the Trust Board.
3. On 28 February 2011, the Department of Health published guidance on completing the Statement on Internal Control 2010/11, covering the year end process; disclosures; and including a proforma Statement on Internal Control 2010/11.
4. The Department of Health guidance requires NHS bodies to consider incorporating prescribed wording within their Statements. The Trust's draft Statement (attached at appendix A) incorporates the prescribed wording and is shown in bold.
5. The Director of Corporate and Legal Affairs has prepared the draft Statement on Internal Control 2010/11 attached at appendix A, taking into account the Department of Health guidance and in consultation with the Chief Executive, other Director colleagues and Officers of the Trust. An earlier draft was received and reviewed by the Audit Committee at its meeting on 12 April 2011 (Minute 33/11 refers).
6. The draft Statement attached at appendix A has been updated to take into account feedback provided by the Trust's External Auditor on the earlier draft version.
7. In the ISA 260 Audit Highlights Memorandum dated 23 May 2011 (featured elsewhere on this agenda), the External Auditor states that the Statement on Internal Control is compliant with NHS guidance, reflects the Trust's control environment and is consistent with the financial statements.
8. Once the External Auditor has received the Trust's 'Representation Letter' the External Auditor will be in a position to issue formally their audit opinions which, amongst other matters, will confirm that the Trust has complied with Department of Health requirements in the preparation of its Statement on Internal Control and that they are not aware of any inconsistencies between the information the Trust has recorded in the

Statement and their other work.

- 9.** The Audit Committee is charged by the Trust Board with the responsibility of reviewing the adequacy of all risk and control related disclosure statements, including the draft Statement on Internal Control, prior to submission to the Trust Board for consideration and approval.
- 10.** The Committee is invited to review the draft Statement on Internal Control 2010/11 attached at appendix A ahead of its consideration by the Trust Board on 2 June 2011.
- 11.** Subject to the outcome of the review of the draft Statement by the Audit Committee on 31 May 2011, the Trust Board will be invited to approve the Statement at its meeting on 2 June 2011.

Stephen Ward  
Director of Corporate and Legal Affairs  
25 May 2011

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**UNIVERSITY HOSPITALS OF LEICESTER NHS TRUST**

**STATEMENT ON INTERNAL CONTROL 2010/11**

**1. Scope of responsibility**

**The Trust 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 Trust's policies, aims and objectives. I also have responsibility for safeguarding the public funds and the Trust's assets for which I am personally responsible as set out in the Accountable Officer Memorandum.**

As Accountable Officer, and Chief Executive of this Board, I, too, am subject to internal control. As Chief Executive, I am accountable to the Trust Board for ensuring that the Board's plans and objectives are implemented and that progress towards implementation is regularly reported to the Board using accurate systems of measurement and data management. The Trust's corporate governance policies and other advice on expected standards of behaviour of staff apply equally to me as Chief Executive as to any other member of staff. I subscribe to the Code of Conduct for NHS Managers.

The Trust has a range of mechanisms in place to facilitate effective working with key partners, in particular the East Midlands Strategic Health Authority (NHS East Midlands), NHS Leicester City, NHS Leicestershire County and Rutland, Leicestershire Partnership NHS Trust and East Midlands Ambulance Service NHS Trust, respectively. I meet regularly with the Chief Executives of each of these organisations, individually, jointly and collectively. Within Leicester, Leicestershire and Rutland (LLR), I meet at least monthly with the joint Chief Executive of the two local PCTs and Leicestershire Partnership NHS Trust. The Trust's participation in delivering the Leicester, Leicestershire and Rutland urgent and emergency care system improvement programme is further evidence of the organisation's commitment to partnership working.

**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 Trust'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.**

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**The system of internal control has been in place in University Hospitals of Leicester NHS Trust for the year ended 31 March 2011 and up to the date of approval of the annual report and accounts.**

### 3. Capacity to handle risk

Amongst other duties, the Trust Board has collective responsibility for providing leadership to the organisation within a framework of prudent and effective controls. As outlined in 'The Healthy NHS Board : Principles for Good Governance' (NHS National Leadership Council 2010), the Trust Board is responsible for ensuring that the organisation has appropriate management processes in place to deliver the annual plan and comply with the regulatory requirements of the Care Quality Commission (CQC), the quality regulator. This includes systematically assessing and managing its risks. These include financial, corporate and clinical risks.

The Trust Board itself ensures that leadership is given to the risk management process. The Trust Board has approved a risk management strategy which sets out the Trust's attitude to risk and, amongst other matters, describes the way in which risks are identified, evaluated and controlled.

Working within the framework of the risk management strategy, and acting through and on behalf of the Trust Board, an appropriate infrastructure has been established to carry through the risk management agenda. In terms of individual Executive Director responsibilities for managing risks:-

- I am the Accountable Officer, with responsibility for ensuring that the organisation has in place effective management systems which safeguard public funds; for achieving value for money from the resources available to the Trust; for avoiding waste and extravagance in the organisation's activities; and for ensuring that expenditure by the Trust complies with Parliamentary requirements;
- the Director of Finance and Procurement leads on financial risk management, with a specific responsibility to support me in my role as Accountable Officer to see that appropriate advice is tendered to the Trust Board on all matters of financial probity and regularity, and more broadly on all considerations of prudent and economical administration, efficiency and effectiveness;
- the Chief Operating Officer/Chief Nurse leads on operational performance, emergency preparedness and business continuity risk management; as Director of Infection Prevention and Control, the Chief Operating Officer/Chief Nurse leads on infection prevention and control; and, with the support of the Director of Nursing, also leads on child and adult safeguarding matters;

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- the Medical Director leads on the Trust's fulfilment of its clinical governance and clinical risk management responsibilities, ensuring that the organisation has in place systems and processes to support individual, team and corporate accountability for the delivery of patient-centred, safe, high quality care, within a reporting and learning culture. Supported by the Director of Clinical Quality, the Medical Director co-ordinates the process for ensuring that the Trust achieves compliance with the requirements of the CQC. Supported by the Director of Safety and Risk (the Trust's designated Patient Safety Lead), the Medical Director also has operational responsibility for the maintenance and development of the Trust's strategic risk register and assurance framework, complaints management, health and safety management, and the Trust's safety alert broadcasting system, respectively;
- the Director of Human Resources leads on workforce issues, organisational development and is managerially responsible for the Trust's occupational health service.

The Executive Directors are supported in discharging their risk management responsibilities by the following Directors:-

- the Director of Communications and External Relations – leads on reputational risk management;
- the Director of Corporate and Legal Affairs – is Secretary to the Trust and advises the Trust Board on governance matters;
- the Director of Facilities – leads operationally on fire safety and estates risk management;
- the Director of Research and Development - leads on research governance and research risk management, respectively;
- the Director of Strategy - leads on the process of developing the Trust's integrated business plan and application for NHS Foundation Trust status and has managerial responsibility for the Information Management and Technology and Facilities Directorates, respectively.

From 1 April 2010, new management arrangements took effect, with the creation of four new Divisions, each led by a Divisional Director. From that date, Divisional Directors, supported by Divisional Managers and Heads of Nursing have exercised responsibility for the management of risks at individual Divisional level.

I meet with all the Executive and other Directors of the Trust on a regular basis to discuss and review performance. The Executive Team, which includes all of the aforementioned Directors, assists me in my

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role. I chair this group, which meets weekly, and it regularly considers significant risks, issues and exceptions and the proposed corrective action.

Trust staff are equipped and trained to manage risks in a variety of ways. The Trust's Staff Handbook, made available to all new staff joining the organisation, includes information on managing risk. The Trust's induction programme, attended by all new staff, includes a risk awareness module.

The Trust has adopted a policy for statutory and mandatory training, defining mandatory training programmes including those relating to the management of identified risks.

The Trust additionally provides risk management training for staff across a wide range of subjects, the principal aim of which is to equip staff to better manage risk in a way appropriate to their authority and duties. Subjects covered include:-

- risk assessment;
- root cause analysis;
- display screen equipment;
- stress management;
- control of substances hazardous to health;
- working safely;
- the role of the departmental safety co-ordinator;
- moving and handling;
- patient safety;
- personal safety awareness;
- fire safety;
- food hygiene;
- latex allergy;
- first aid at work;
- child protection and protecting vulnerable adults;
- infection prevention and control, including effective hand hygiene;
- clinical skills and resuscitation training;
- radiation protection;
- safe use of diagnostic and therapeutic equipment;
- violence and aggression.

The Trust seeks to learn from good practice in handling risks. The Trust is a member of the Patient Safety First campaign, sponsored by the National Patient Safety Agency, NHS Institute for Innovation and Improvement and The Health Foundation. This campaign aims to improve patient safety and reduce avoidable harm.

#### **4. The risk and control framework**

The Trust's revised risk management strategy sets out how, as part of its risk management process, the Trust:



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- identifies corporate and operational risks;
- assesses the risks for likelihood and impact;
- identifies mitigating controls;
- allocates responsibility for the mitigating controls;
- undertakes a risk assessment for strategic policy decisions and in project initiation documents.

The Trust maintains, and the Trust Board regularly reviews, a register of strategic risks linking them to strategic business objectives and assigns ownership of each risk to an appropriate, named individual. This process is designed to ensure that key risks are being effectively managed and mitigated and that key risks, and actions to mitigate them, help drive and shape the Trust Board agenda. The Trust's assurance framework is combined with the strategic risk register, enabling the Trust Board to satisfy itself and demonstrate that the assurance framework is fully embedded in the Trust's business processes.

The organisation's major in-year risks have included the risk of patient safety being significantly compromised; of poor outcomes of clinical care; and failure to deliver a high quality patient experience. Future risks identified by the Trust Board include the risk of inadequate organisational development, threatening the fitness for purpose of the Trust. Each of these risks, and the controls in place to mitigate them, has been examined in depth by the Trust Board during 2010/11.

During 2011/12, the Trust Board will continue to review regularly the Trust's control environment to enable it to manage these and the other significant business risks identified in the organisation's risk register. The reviews will continue to take place in the public section of Trust Board meetings, underlining the Trust's commitment to transparency and public accountability.

The Trust recognises the importance of robust information governance. During 2010/11, the Director of Strategy led on information governance issues as the Trust's Senior Information Risk Owner, supported by an Information Governance Manager. The Medical Director was the Trust's Caldicott Guardian during 2010/11.

The Trust took further actions during 2010/11 to secure improvements in its information governance arrangements. An Information Governance Steering Group monitors and oversees compliance with information governance requirements. The Trust fully supported NHS East Midlands' information governance awareness campaign to promote secure handling of personal data ('NHS Confidential').

All NHS Trusts are required annually to undertake an information governance self-assessment using the NHS Information Governance toolkit. This contains 45 standards of good practice. This year, the Department of Health has structured the standards to be significantly more prescriptive and the bar to achieving a 'satisfactory' rating has been raised. 'Satisfactory' will only be achieved when all 45 standards achieve level 2 out of a possible score of 3. The Trust has scored level

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1 on 5 standards (out of 45). UHL's overall percentage score is 75% compared to 77% in 2009/10.

Within the 45 standards, 22 are considered key assurance standards which comprise the 'Statement of Compliance'. The Trust has scored level 1 on five of these standards. Plans are in place to ensure that the Trust achieves level 2 scores in 2011/12.

The arrangements in place at the Trust which provide further evidence of the organisation's commitment to robust internal control include the following:-

- the establishment and operation of an Audit Committee, Finance and Performance Committee, Governance and Risk Management Committee and Workforce and Organisational Development Committee respectively, reporting to the Trust Board;
- documenting of key internal control policies and procedures;
- ensuring that Internal Audit services have sufficient status, independence and resources;
- publishing Standing Orders, Standing Financial Instructions, a Scheme of Delegation to Officers, a Code of Business Conduct for Trust staff and a Policy on Fraud. The Trust Board has also adopted formally the NHS Code of Conduct and Code of Accountability, respectively, together with the 'Nolan Principles' ("The Seven Principles of Public Life");
- establishing sound human resources policies;
- establishing a system of personal appraisal and development review which seeks to ensure that individual objectives flow from the organisation's objectives.

A key element of the Trust's risk management strategy is to help to create a culture which encourages staff to identify and control risks which may adversely affect the Trust's operational ability. A traditional risk assessment matrix is used to ensure that a consistent approach is taken to assessing and responding to risks and incidents. The Trust's Risk Assessment Policy sets out details of the methodology that is used and this forms an appendix to the Trust's risk management strategy. The risk management strategy identifies options for the treatment and control of risks to the Trust. Very low and low risks to the Trust will normally be managed through action by line managers, while more serious categories of risk will fall to be addressed by a more senior manager supported, if required, by a member of the Corporate Risk Team.

The Quality and Performance Management Group (acting on behalf of the Executive Team) has regularly reviewed 'corporate risks' featured

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on the Trust's risk register; the Trust Board's Governance and Risk Management Committee does likewise at its meetings.

The Trust's assurance framework has helped the Audit Committee and Trust Board to identify the principal risks to the organisation meeting its principal objectives and to map out both the key controls in place to manage them and also how it has gained sufficient assurance about their effectiveness.

In his interim Audit Opinion for 2010/11, the Head of Internal Audit has noted the Trust's processes for in-year monitoring and scrutiny of the assurance framework which is updated with relevant risks and controls on an ongoing basis.

The assurance framework 2010/11 was designed and operated to meet the Department of Health's requirements and provide reasonable assurance that there is an effective system of internal control to manage the principal risks identified by the Trust.

During the course of 2010/11, the Audit Committee and Trust Board accepted that there were specific – though not significant – gaps in certain areas of control and assurance as identified within the assurance framework itself. These concerned, for example, the ongoing work to provide sufficient assurance of compliance with the CQC essential standards of quality and safety.

The Trust Board was informed of, and endorsed, the actions that were taken to address each of these matters. Progress was, and will continue to be, measured and reported regularly to the Executive Team, Audit Committee and Trust Board (as appropriate) through the Trust's well established performance reporting and monitoring processes. In turn, this will enable the Trust to strengthen its assurance framework, thereby helping to embed improved risk management, control and review processes appropriate to the Trust's circumstances across all of its core business activities.

**The Trust is fully compliant with the CQC essential standards of quality and safety.**

At each of its monthly meetings, the Trust Board receives information about operational performance, focussed on the most important measures of performance, with exceptions highlighted. Through the use of 'traffic light' indicators, the Trust Board's attention is directed to significant risks, issues and exceptions; to the controls in place to mitigate the identified significant risks; and to the proposed corrective action. The Trust Board is assisted in this task by both the Finance and Performance Committee and Governance and Risk Management Committee, which it has established to improve the overall governance arrangements of the Trust.

During the course of 2010/11, the Trust has co-operated with other NHS bodies, local authorities and other relevant organisations with an interest in the local health economy to ensure that patients' individual

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needs are properly managed and met.

In particular, senior representatives of the Trust have met regularly with the Trust's Patient Advisers and the Joint Health Overview and Scrutiny Committee for Leicester, Leicestershire and Rutland, respectively, and, in this way, the Trust has engaged with, and involved, public stakeholders in managing risks which impact on them.

**Control measures are in place to ensure that all the organisation's obligations under equality, diversity and human rights legislation are complied with. Where appropriate, the Trust undertakes and acts upon the findings of equality impact assessments.**

**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 into the Scheme are in accordance with the Scheme's rules, and that member Pension Scheme records are accurately updated in accordance with the timescales detailed in the Regulations.**

**The Trust is committed to sustainability and sustainable development. The Trust has undertaken a climate change risk assessment and developed an Adaptation Plan, to support its emergency preparedness and civil contingency requirements, as based on the UK Climate Projections 2009 (UKCP09), to ensure that this organisation's obligations under the Climate Change Act are met.**

## **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.**

I have noted that, in his interim Audit Opinion for 2010/11, the Head of Internal Audit has stated that significant assurance can be provided that there is a generally sound system of internal control, designed to meet the Trust's objectives, and that controls are generally being applied consistently.

A significant majority of the assignments completed by Internal Audit during 2010/11 have provided positive assurances.

**Executive Directors, other Directors and senior managers within the organisation who have responsibility for the development and maintenance of the system of internal control also provide me with assurance. The assurance framework itself provides me with**

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**evidence that the effectiveness of controls that manage the risks to the Trust achieving its principal objectives have been reviewed.**

My review is also informed by the findings identified and conclusions reached by the Internal and External Auditors and other bodies in their reports in 2010/11, including the Care Quality Commission, Clinical Pathology Accreditation Ltd, the Environment Agency, Health and Safety Executive, Health Overview and Scrutiny Committees of local authorities, Human Tissue Authority, Information Commissioner, Health Service Ombudsman, Medicines and Healthcare Products Regulatory Agency, National Patient Safety Agency and the NHS Litigation Authority. I also note that, in 2010/11, the Trust remained accredited at Level 2 by the NHS Litigation Authority in relation to its general and maternity clinical risk management standards, respectively.

**I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by** Internal Audit, External Audit, the East Midlands Strategic Health Authority, Trust Board, Executive Team, Finance and Performance Committee, Governance and Risk Management Committee, Workforce and Organisational Development Committee and Audit Committee. During 2010/11, each of these bodies has been involved in a series of processes that, individually and collectively, has contributed to the review of the effectiveness of the system of internal control.

A plan to address weaknesses and ensure continuous improvement of the system of internal control is in place. This plan includes work to improve the Trust's control environment for the recording, monitoring and reporting of waiting times within the Emergency Department, a subject on which the Trust's Internal Auditors reported in 2010/11. In particular, further work will be undertaken in 2011/12 to review and strengthen the Trust's governance, risk management and internal control systems, policies and procedures. This work will contribute to the Trust's aim of submitting its application for authorisation as an NHS Foundation Trust in 2011/12.

I am of the opinion that the implementation of the actions described above will strengthen the Trust's system of internal control in 2011/12 and beyond.

**My review confirms that the University Hospitals of Leicester NHS Trust has a generally sound system of internal control that supports the achievement of its policies, aims and objectives.**

Signed: .....

Chief Executive  
(On behalf of the Trust Board)

Date .....