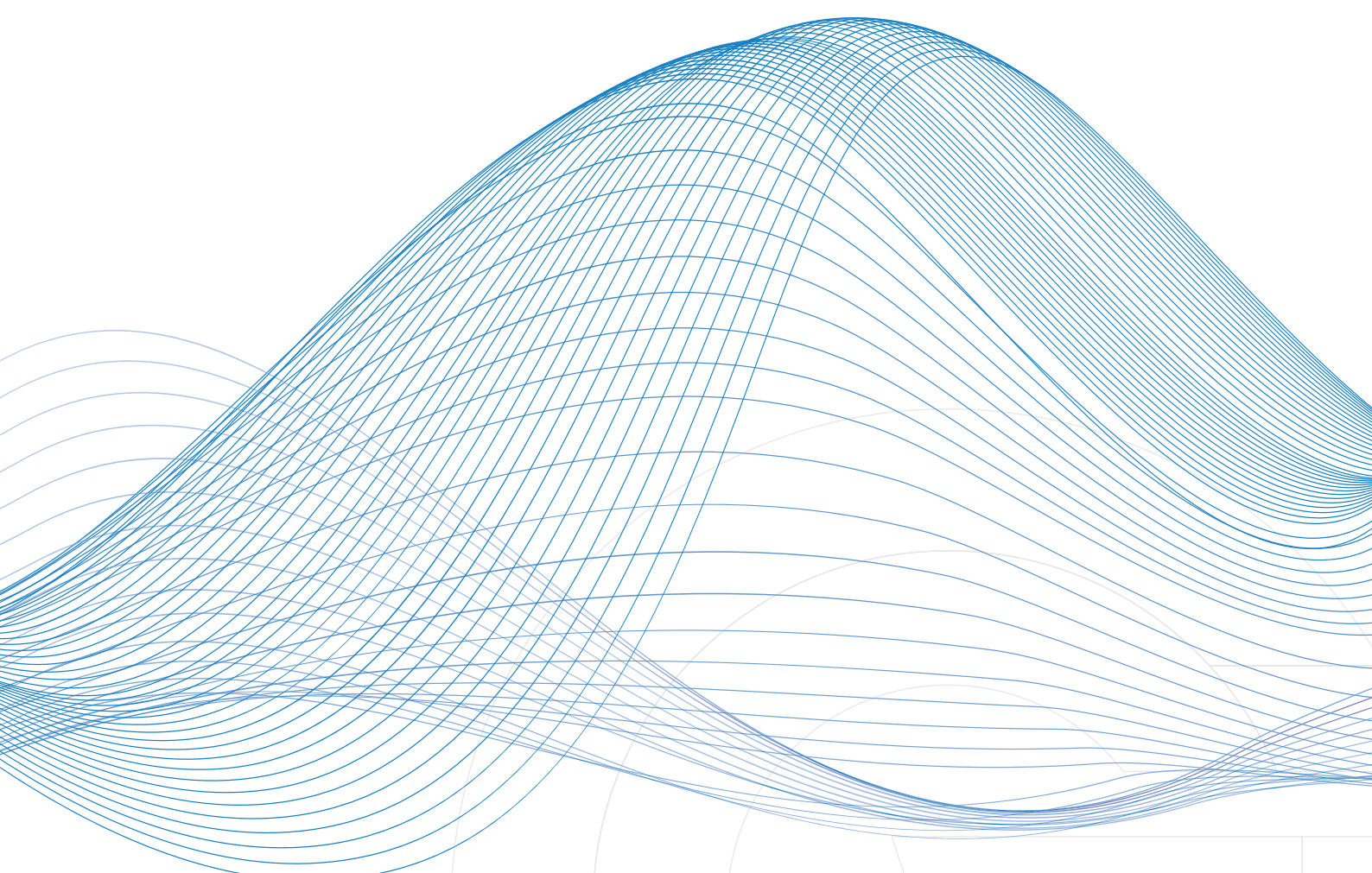**Audit Committees**
Board Assurance Prompt

Good Governance Institute

The Good Governance Institute exists to help create a fairer, better world. Our part in this is to support those who run the organisations that will affect how humanity uses resources, cares for the sick, educates future generations, develops our professionals, creates wealth, nurtures sporting excellence, inspires through the arts, communicates the news, ensures all have decent homes, transports people and goods, administers justice and the law, designs and introduces new technologies, produces and sells the food we eat - in short, all aspects of being human.

We work to make sure that organisations are run by the most talented, skilled and ethical leaders possible and work to build fair systems that consider all, use evidence, are guided by ethics and thereby take the best decisions. Good governance of all organisations, from the smallest charity to the greatest public institution, benefits society as a whole. It enables organisations to play their part in building a sustainable, better future for all.

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The essential guide to provider collaboratives

The role of the audit committee is separate and distinct from the other committees of the board, which are part of the governance, risk management and internal control systems that support the organisation in the achievement of its statutory obligations and strategic objectives.

These other committees provide assurance to the board in respect of the likely achievement of strategic objectives based both on performance and their assessment of the risks, mitigations and effectiveness of controls. As the 'senior' statutory committee, the audit committee should lead the narrative across the organisation including, for example, on the annual governance statement.

Therefore, in reviewing the totality of the organisation's governance arrangements, the role for the audit committee is to scrutinise the assurances provided to the board by the other committees and ensure that established systems and processes have been followed in generating these assurances.

> **"Given that governing bodies rely on an assurance framework to monitor strategic objectives and identify significant inherent risks, the audit committee's primary role is to look behind it to provide assurance that the framework itself is valid and suitable for the governing body's requirements."**
>
> HFMA. Audit Committee handbook, 4th Edition, 2018 (ISBN No. 978-1-904624-97-4).

The audit committee needs to ensure that it can articulate whether the governance, risk management, internal control systems and processes are:

- The right ones
- In place
- Working
- Effective (leading to improvements)
- Future proofed

This suggests that the key role is to support the board by critically reviewing and reporting on the relevance and robustness of the governance structures and processes that the organisation relies upon. Based on mission critical objectives, in line with the organisation's ethics and values, identifying the key risks is a crucial role for the committee to play; the audit committee should see itself as driving risk policy on behalf of the board. It should encourage continuous improvement and be authorised to conduct investigations and take professional advice for matters within its sphere of responsibility.

The committee's tool kit involves the external auditors (whose appointment it leads on) and the internal auditors, whether employed or contracted. External auditors largely follow a statutory role while internal auditors follow a plan agreed within the organisation and approved by the audit committee. Paying attention to key risks should be a part of every internal audit plan. Being confident in the organisation's accounting policies and practices together with its management accounts and information should be part of the audit plan. Other options include commissioning management reviews, external reviews or, in serious cases, joining forces with NHS Protect.

Membership characteristics

Most organisations specify a minimum of three independent members of an audit committee by which they mean members cannot be employees or derive the largest part of their income from the organisation. At least one member should have appropriate financial knowledge and capability. Members should share the key characteristics that are expected of a non-executive director but should be even more rigorous in applying them. A good member needs to be experienced, quizzical and at times sceptical – in other words, fiercely independent of thought – have a good sense of the organisation's values alongside their own, be able to see the whole picture and not be mired in unnecessary detail, be a good communicator capable of asking probing questions and following up the answers until satisfied, and be willing to invest the, inevitably discretionary, time to do a good job. Asserting that independence through meeting the internal and external auditors annually in private is also a good idea.

Support material

Given the complexity and sensitivity of the work of an audit committee, the quality of the information it is given must be of the highest quality. Essentially, it must be clear why a matter is on the agenda, what the executive's insights and recommendations are and what the committee is being asked to do should form a summary.

Detail is for annexes; papers should be freestanding and engage members, who should be able to understand the basics from the paper with the detail an option for those who want further information. The more that graphics and charts can be used, especially for financial analysis, the better to aid understanding and clarity of thought. Meeting packs made up of several hundred pages of information do not guarantee effective governance and assurance. It is down to the committee chairman to accept or reject what is being provided; the committee should make its requirements clear and not accept any deviation.

The annual rhythm

The climax of the audit committee's year is the approval of the annual report and accounts together with the annual governance statement, quality accounts and confirmation of having met provider licence requirements. Confirming that there is an adequate clinical audit schedule in place should for part of the overall assurance plan. This is where the interplay with external auditors offers assurance or warning and signals the direction for the next period.

Audit committees should expect regular reports from internal auditors and the management response to their findings, counter fraud and bribery act updates as well as serious incident review analyses and staffing assurances.

Standing financial instructions and standing orders also merit annual review by the audit committee.

Most audit committees are responsible for the processes around the board assurance framework, being involved in the agreement of the strategic risks that it comprises, their allocation to other committees for detailed management and then receiving further assurance or escalation about the state of the mitigations.

There will inevitably be surprise items but the combination of this suite of regular activities alongside the matters dealt with below should enable the committee to fulfil its key task of assuring the board that the assurances it is receiving are valid. Further, the audit committee should annually assure itself that its work is adding value, with appropriate consideration of independent assurance reports (from a variety of sources), management response, and improvement actions so the board is clearly sighted on the issues that arise which require action by the organisation.

The frequency of meetings is usually assumed to be quarterly and more often would be onerous. However, in the NHS the approvals following the end of the financial year tend to make May a busier time for audit committees and they often meet for an additional, extra approval meeting.

Crises, risks and issues

The risk register and/or board assurance framework can never hope to anticipate any or all crises that may occur. The current COVID-19 pandemic is unprecedented since the establishment of the NHS so there is no shame in not having spotted it coming. It is a serious issue for a trust to deal with but the actions and responses are largely centrally determined and its
place on a BAF is questionable. However now we know it is here, boards should have adapted the BAF to recognise the impact to strategic objectives and indeed whether these objectives are now appropriate.

Nevertheless, many trusts have COVID-19 risk on their registers, which should be carefully watched as should the use of the waiver for rules around, for example, procurement, where COVID-19 is cited as the reason. This merits challenge.

What is unarguable though is a risk on the register to deal with the unexpected, how to deal with business interruption and what the acceptable consequences of crisis management should be. The audit committee therefore should expect to see such a risk and to be involved in the mitigations: business interruption policies, escalation plans and, after an event has been resolved, making sure there has been a thorough review to learn from the event and that the relevant plans and policies are updated. This is likely to need an external perspective to be included in the consideration.

Whistleblowing

The Public Interest Disclosure Act 1998 protects employees raising employment concerns. Commonly referred to as whistleblowing, the way an organisation responds to such concerns is a good indicator of whether it is living its values and whether its culture is open, fair and healthy. NHS trusts are also required to nominate a 'freedom to speak up guardian' who must be an independent source of advice to anyone raising a concern in the NHS.

An audit committee should make sure that there is proper board level responsibility and that there are periodic reports to the board sponsored by the accounting officer and the workforce director. It is good practice for the audit committee to receive an annual report on the organisation's whistleblowing practices as a substantive discussion item.

Cyber security

This is a serious 21st century issue and there have been a number of high profile incidents. The Treasury's guidance makes it clear that audit committees should scrutinise cyber security arrangements and, if unable to predict all attacks, have robust and rapid responses in place. In practice this needs to involve the senior information responsible officer (SIRO).

The National Audit Office suggests three questions for audit committees:

*   Has a formal regime or structured approach to cyber security which guides its activities and expenditure been implemented?
*   How has management decided what risk it will tolerate and how it manages that risk – GGI's risk appetite matrix provides a useful guide to boards
*   Have you identified and deployed the capabilities needed in this area?

In practice, this suggests that the committee will want to:

*   Evaluate the governance and controls in place – especially in the light of any reportable incidents
*   Understand the potential threats and system weaknesses
*   Be reassured there is capable management resource in place to deal with cyber security matters
*   See that there is an incident response plan in place, tested and ready to go
*   Know that the workforce has been briefed and trained about cyber security.

Collaborative working

Collaborative or partnership working is going to become a larger part of all NHS lives in the coming years and setting out the role of an audit committee is important but potentially tricky. Important because the sovereign organisations remain the participants not the integrated care system (ICS) and tricky because balancing progress, co-operation and achieving more for local people against not holding these back while fulfilling a duty may not always be comfortable. It's easy to advocate light touch but the reality may well be different as the strengths, challenges and influences of the various participants make themselves felt.

Local health economies are multi-faceted and need a similar response. However, the guiding light must be the potential for improvement for patients, citizens and service users.

An audit committee should first and foremost understand what the local arrangements are – their overall aims, ambitions, strategies and intentions including their alignment across the system:

- What do these mean for delegation – what will the ICS be able to decide and what matters remain reserved for participants to make?
- What are the shared decision-making arrangements?
- Do you understand the accounting arrangements being put in place, especially when participants may have completely different funding mechanisms – as in local authorities and the voluntary sector?
- Is there an agreed risk management set up – including whether there is an appetite for drawing risk appetite and tolerance together?
- Are you going to be assured by the flow and quality of information that will become available?

It would be helpful if the partnership had only to provide this reassurance once so it is incumbent on audit committees across the collaboration to agree what assurance they are seeking collectively and ultimately, as the partnership matures, moving to an audit committee in common, including the deployment of internal audit resources, is likely to be the right solution.

There are other, existing collaborations that audit committees should take an interest in. These include chains of trusts and others working together, joint contractual services across sites and organisations, the range or research and academic arrangements such as academic health science centres and academic health science networks as well as commercial ventures. These are all more likely to have been set up with a formal agreement in place and in some instances will have a legal status. The audit committee job then is to make sure these are properly run and governed and deliver for the organisations involved.

This BAP is completed with maturity matrices covering the work of an effective audit committee and its administration. GGI has based these on work undertaken in 2019 with 360 Assurance and is updated to reflect the experience of COVID-19.

EFFECTIVE AUDIT COMMITTEE

A Maturity Matrix developed by the Good Governance Institute

TO USE THE MATRIX: IDENTITY WITH A CIRCLE THE LEVEL YOU BELIEVE YOUR ORGANISATION HAS REACHED AND THEN DRAW AN ARROW TO THE RIGHT TO THE LEVEL YOU INTEND TO REACH IN THE NEXT 12 MONTHS

PROGRESS LEVELS ▸ / KEY ELEMENTS ▾	1 BASIC	2 IMPROVING	3 MATURE	4 BEST PRACTICE / FIT FOR FUTURE
INDEPENDENCE	Independence of audit committee referenced in ToR and induction materials	Roles of AC and other committees formally supported through access to SID / Non-executive/lay member membership with executive officers in attendance. / Established that AC chair cannot chair another board/governing body committee.	The committee sets forward agenda/ work programme to meet its needs and 'commissions'/ requests necessary papers/reports. / Members can call who they need to the committee. / Committee confident to reject reports/papers if necessary. There is clear evidence of challenge to poor/unreliable sources of assurance. / Chairs of other board/governing body committees understand the difference in role requirements if they also sit on AC.	AC has begun to challenge wider performance issues such as buying locally, management capacity, green credentials (e.g. supply chain)
ASSURANCE MAPPING	Clear and consistent assurance levels in place across the organisation.	Assurance mapping undertaken at an organisational level (e.g. for BAF purposes). Top down based on assurance required against strategic objectives and underpinning strategies. / Other board/governing body sub-committees have completed their own assurance mapping (across all services and facilities to ensure no gaps i.e. bottom up).	The AC has undertaken its own assurance mapping and scrutinised that done by other sub-committees.	Independent scrutiny has been commissioned of the assurance mapping programme. Proposals implemented
REVIEW OF BAF	BAF/GBAF process and report document is regularly reviewed for fitness for purpose. Where found to be unhelpful the AC requests that its structure be redesigned.	Changes made to the BAF/GBAF report by other board/governing body committees are routinely reviewed and scrutinised.	The full content of the BAF/GBAF report and compliance with the BAF/GBAF systems and processes, as designated to each board/governing body committee are reviewed and scrutinised on a cyclical basis.	BAF/GBAF forms the basis of the AC report to board/governing body, reflecting that the BAF/GBAF is a key element of board/governing body agendas, discussion and action.
SETTING IA PLAN	Mapping of emerging or neglected issues to inform IA plan	Liaison between AC and IA in determining plan and skills (eg clinical) required. / AC able to use assurance mapping (and the gaps this may identify) to make the most effective use of IA time.	Other board/governing body committee chairs offered the opportunity to direct some IA time to support gaps in the assurances they receive.	Allowing sufficient time within the IA plan for flexibility to address emerging risks. / Consideration of how future plans will include audits across health and social care economy
RELATIONSHIP WITH IA / EA	Relationship with IA and EA clearly articulated	At least one meeting annually between AC members and auditors without executive officers.	Auditors support the organisation by sharing emerging issues, threats and opportunities / Effectiveness of IA /EA reviewed on at least an annual basis in terms of the benefit they have provided in helping AC fulfil its role/purpose.	AC working with IA to introduce agile auditing / Discussions are being held on group audit work across health economy generally and on specific issues

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PROGRESS LEVELS ► KEY ELEMENTS ▼	**1** BASIC	**2** IMPROVING	**3** MATURE	**4** BEST PRACTICE / FIT FOR FUTURE
RELATIONSHIP WITH IA / EA ▶	Relationship with IA and EA clearly articulated	At least one meeting annually between AC members and auditors without executive officers.	Auditors support the organisation by sharing emerging issues, threats and opportunities Effectiveness of IA /EA reviewed on at least an annual basis in terms of the benefit they have provided in helping AC fulfil its role/purpose.	AC working with IA to introduce agile auditing Discussions are being held on group audit work across health economy generally and on specific issues
ASSESSMENT OF EFFECTIVENESS ▶	Purpose of the AC is clearly articulated. Purpose/focus of review of effectiveness is defined.	Assessment of effectiveness routinely undertaken (part of cycle of business) following a clearly defined process.	Assessment of effectiveness is formally reviewed internally (e.g. by board/governing body/ governors) Assessment made of whether expected changes/ improvements as a result of process are being made.	Changes/improvements in the AC's practice arising from the assessment of effectiveness have the desired outcome. Independent review undertaken of the effectiveness of the AC/ peer review of assessment of effectiveness undertaken.
AC ANNUAL REPORT ▶	The AC prepare an annual report for board/governing body	The annual report articulates whether or not the AC has fulfilled its role/purpose (as per its ToR) and makes reference to the output of the assessment of effectiveness	The annual report articulates the AC's assessment of the organisation's systems of governance, risk management and control based on the work it has undertaken. Annual report produced prior to drafting the annual governance statement	Annual report reflects external and future threats and opportunities and ways of improving awareness of these.
ANNUAL GOVERNANCE STATEMENTS (AGSs) ▶	AGS prepared within a time-frame that allows for AC to properly scrutinise (and included in cycle of business). Consistent interpretation of what constitutes a significant control issue across the organisation.	AGS scrutinised by AC to determine accordance with AC's own work undertaken throughout the year e.g. cross- reference with AC annual report.	Regular assessment by AC of whether issues identified throughout the year are significant control issues and therefore need to be referred to in the AGS. Ability to refer back to this when scrutinising the AGS.	AC cycle of business such that AC provides the starting point for the AGS (e.g. AC annual report). Review determines if threshold of what constitutes a significant control issue within partner organisations is consistent
PARTNERSHIP WORKING ▶	Partnership working annual part of the cycle of business	Partnerships scrutinised by AC to ensure alignment with strategy and appropriate governance in place. Discussion on balance between sovereignty of the organisation and working in collaboration.	Internal audit programme includes review of partnership arrangements to ensure robust processes and governance in place Assurance is sought to ensure conflicts and issues can be resolved within existing partnership arrangements	Partnership arrangements reflected in entire AC programme and considered as part of each agenda item AC sees evidence that there is balance between sovereignty and collaboration.
BUSINESS CONTINUITY ▶	Business continuity and emergency preparedness part of annual cycle of business	Business continuity and emergency preparedness plans annually reviewed and scrutinised by AC to ensure plans are robust	Internal audit programme includes review of business continuity and emergency preparedness including test arrangements	AC involved in testing regime of business continuity and emergency preparedness. Linked to BAF in consideration of business continuity risks

EFFECTIVE ADMINISTRATION AUDIT COMMITTEE
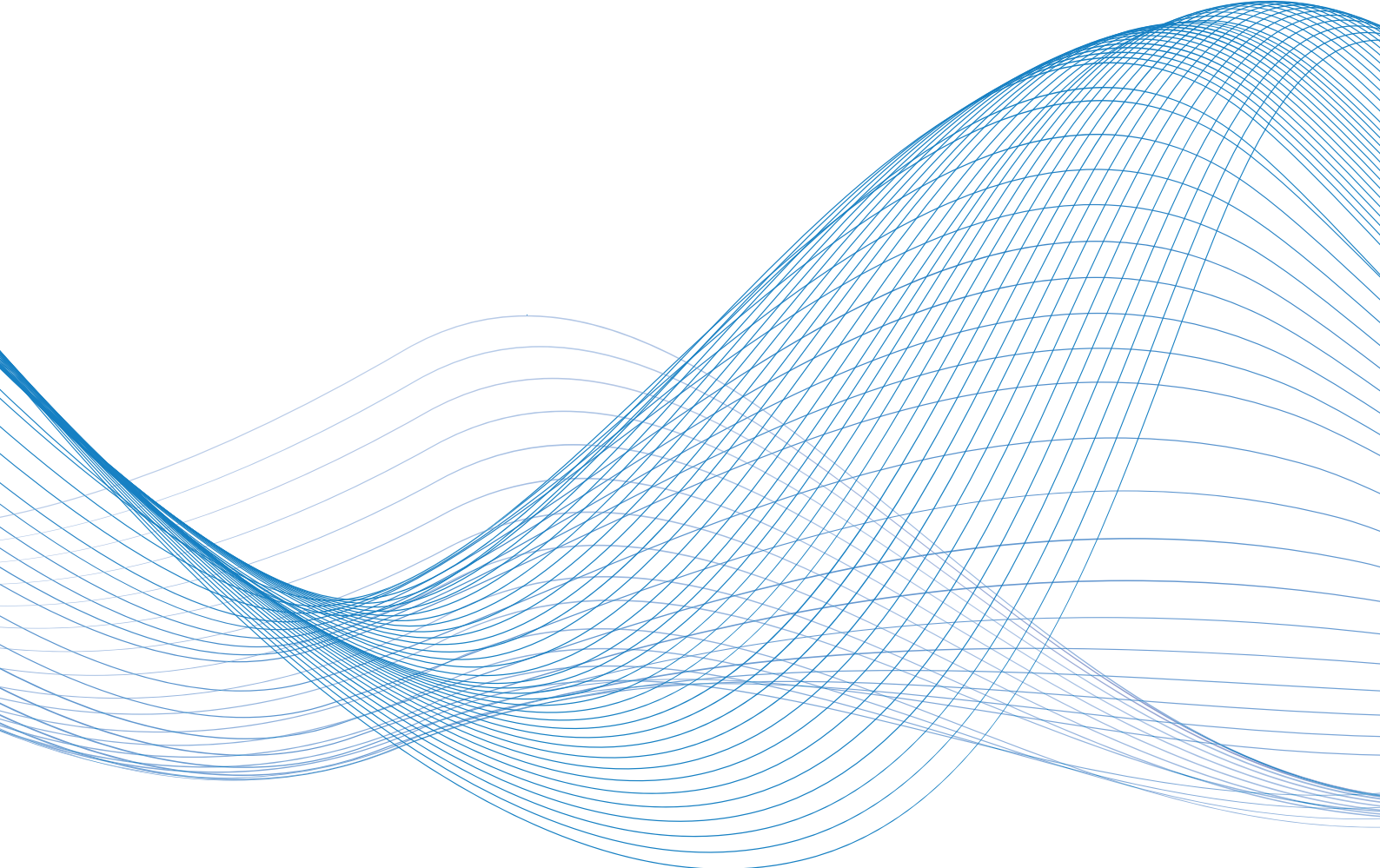## A Maturity Matrix developed by the Good Governance Institute

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PROGRESS LEVELS ▲ / KEY ELEMENTS ▼

KEY ELEMENTS	1 BASIC	2 IMPROVING	3 MATURE	4 BEST PRACTICE / FIT FOR FUTURE
RELATIONSHIP WITH BOARD/GOVERNING BODY	Role and membership of the board/governing body clear and documented. Relationship with board/governing body identified, with board/governing bGody articulating the assurance required from the AC and the frequency and method of reporting/ escalation.	Requirements established by Board/Governing Body consistently met (inc frequency and method of reporting).	AC is pro-active in escalating actions and issues to Board/Governing Body to inform decision making.	As a result of its work the AC is able to recommend changes to systems of Governance, Risk Management & Control.
CLARITY OF PURPOSE / ROLE OF AC	Organisation has clear strategic objectives which are consistently interpreted by members of the board/governing body. ToR for both AC and other board/governing body committees identify the other board/governing body committees.	AC has a ToR with a defined purpose, which identifies how the AC supports the organisation achieve its strategic objectives and the assurance it provides to board/governing body. Programme of work reflects purpose.	AC ToR identifies how the AC will fulfil its role through its relationship with other board/governing body committees. Formal annual review of effectiveness undertaken.	Formal annual review of effectiveness challenged by board/governing body/governors/ stakeholders. This challenge confirms AC is being effective in supporting board/governing body and stakeholders interests.
RELATIONSHIP WITH OTHER BOARD /GOVERNING COMMITTEES	Committees each have annually defined purpose and agendas for a year.	The difference in function is clearly articulated in the ToR (for both AC and other committees).	Relationship with other committees is robust, scrutiny/challenge is accepted both to and from others.	Annual review cycle affirms or adjusts purpose of committees for coming year.
REPORTING TO BOARD /GOVERNING BODY	AC provides minutes to board/governing body following each meeting.	AC provides summary report to accompany minutes, which identifies where assurance is lacking or new risks have been identified.	AC report is able to advise the board/governing body on their assessment of the robustness of the assurances provided to board/governing body from other sources.	AC produce a summary to accompany the BAF/GBAF report when this is presented to board, identifying any areas where they have concerns about the assurances to be taken from it.
AGENDA & REPORTS RECEIVED	AC agenda is mostly built around reports received from internal/external auditors.	Agenda reflects a mix of internal/external audit reports and issues arising from other committees and partners.	Agenda reflects an alignment of integrated reports arising from audit plan, as well as routine considerations of the assurance provided to board/governing body by other committees and partners.	No surprises agenda and reporting demonstrates effective grip by all lines of defence.
ADMINISTRATION AND CYCLE OF BUSINESS	Committee administrative support identified. Meetings minuted. Agenda items requested prior to each meeting. Agenda signed off by Chair.	Annual cycle of business/ forward agenda/ work plan/ programme of work in place. Agendas based on annual cycle of business. Papers sent out in a timely manner. Papers only tabled by exception. Action follow-up log in place.	Key scrutiny issues included in cycle of business and regularly addressed e.g. BAF, risks register, annual accounts, DS&P toolkit. AC regularly review the cycle of business. Papers are summarised with key information.	Papers provided look forward (e.g. at trajectories) as well as retrospectively. Delegation to management and other committees is reviewed annually.
MEMBERSHIP - SKILLS & KNOWLEDGE	Membership defined and meetings quorate.	Board/governing body has identified skills required to reflect holistic approach to all systems within the institution. Any gaps in skills or experience are filled, temporarily if necessary.	Induction and development programme in place for members.	Schedule of observations of other ACs in place and AC members from other organisations encouraged to attend AC with clear parameters and methods for providing feedback. Succession plan in place (expiry of NED/lay member posts at different times).

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